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QUARTERLY PERFORMANCE REPORT

Contractor: CARANA Corp./Nathan Associates Inc.
Contract # AFP-I-00-00-03-00020-00 Delivery Order 800
Reporting Period: January 1 to March 31, 2007

Preface

The EMERGE Team is using its quarterly reports as a cumulative record of its “Performance Milestones,” defined as those actions taken by the Philippine Government counterparts that are at least partly as a result of EMERGE technical assistance (TA). As a result of our success in this regard, these reports are becoming rather lengthy. We are therefore including, for the first time, a hotkey Table of Contents with which the reader can more easily find his or her way through the document to the particular sections of interest. It starts with an Executive Summary of the Reform Results expected or achieved by the TA, organized by major theme. The normal Contractor’s Report follows, with its first major section, A.3)(a) Current Core Activities, listing the Performance Milestones Achieved by task, both those already completed and those still underway. Some background material is presented on those tasks still underway at the beginning of the current reporting period. This section makes up the bulk of the report. Section A.4) Performance During the Quarter follows, starting on page 93. Both of these major sections are organized by the five overall tasks described in the EMERGE Contract: 1) Policy Analysis and Technical Assistance, 2) Administration of Grants, 3) Administration of the Special Activities Fund, 4) SO2 Monitoring, Assessment, Reporting, and 5) Public Information and Consultations. Since the first three of these overall tasks deal with some of the same specific work plan tasks, this results in some redundancy in the list, but the reporting is from different perspectives.

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Summary of Reform Results Achieved and Expected

Fiscal Sustainability

The government fiscal position has shown steady improvements. When the EMERGE project started in 2004, the government's deficit was at PhP184.6 billion or 3.8% of GDP. In 2005, this was reduced to PhP146.7 billion or 2.7% of GDP. In 2006, the government managed to further trim down its deficit to P64.8 billion or 1.1% of GDP, that is better than target of PhP124.8 billion or 2.1% of GDP. Buoyed by these developments, the government revised its medium-term fiscal program to achieve a balanced budget by 2008, two years ahead of the original target.

NATIONAL GOVERNMENT FISCAL POSITION, 2004 - 2006

Item/Amount	In Billion Pesos			As Percent of GDP		
	2004	2005	2006	2004	2005	2006
Revenue	699.8	816.2	979.6	14.4	15.1	16.3
Tax	598	705.7	859.9	12.3	13.0	14.3
Bu Internal						
Revenue	468.2	542.7	652.7	9.6	10.0	10.9
Bu Customs	122.5	154.6	198.2	2.5	2.9	3.3
Other	7.4	8.4	9.0	0.2	0.2	0.1
Non-Tax	101.8	110.5	119.6	2.1	2.0	2.0
Bu Treasury	64.7	70.6	74.4	1.3	1.3	1.2
Privatization	0.4	2.4	5.8	0.0	0.0	0.1
Other	36.6	37.5	39.3	0.8	0.7	0.7
Expenditure	884.4	962.9	1044.4	18.2	17.8	17.4
Surplus/(Deficit)	-184.6	-146.7	-64.8	-3.8	-2.7	-1.1

Source of basic data: Bureau of Treasury, Comparative Tables on NG Fiscal Performance (various issues); and www.nscb.gov.ph for GDP statistics, accessed April 2007.

The improvement in the government fiscal position has been achieved through better revenue collection and greater fiscal discipline. The government's revenue collection as a percentage of GDP has steadily increased from 14.4% in 2004 to 15.1% and 16.3% in 2005 and 2006, respectively. Likewise, the government has imposed a tight lid on the growth of government expenditure. Government expenditures as a percentage of GDP have been reduced from 18.2% in 2004 to 17.8% and 17.4% in 2005 and 2006, respectively.

The BIR and BOC have made significant improvements in their revenue collection performance. In spite of failing to meet its collection target in 2006¹, the BIR's tax effort (i.e. tax collection as a percentage of GDP) has improved from 9.6% in 2004 to 10.9% in 2006. The BIR collected PhP652.7 billion in 2006, registering an annual growth of 20.1%; which is significantly higher than the 9.9% and 15.9% growth rates that were achieved in 2004 and 2005, respectively. The

¹ The Bureau of Internal Revenue (BIR) failed to meet its 2006 target collection by Php22.7 billion. The collection targets of BIR and BOC are set by the Development Budget Coordination Committee (DBCC) composed of the Department of Budget and Management, Department of Finance, National Economic and Development Authority, and Bangko Sentral ng Pilipinas (the independent monetary authority).

BOC, on the other hand, exceeded its target collection by PhP2.2 billion in 2006. Its collection last year was 28.1% higher than that in 2005 or 2.1 percentage points more than the corresponding growth of its collection in 2005. The BOC's tax effort rose to 3.3% of GDP in 2006, which is substantially higher than the corresponding numbers of 2.5% and 2.9% for 2004 and 2005, respectively.

Another important source of fiscal stimulus is in privatization. The government earned PhP 5.8 billion from privatization or 1,160 % more than what it planned to attain.

Unlike improvements in government revenue collection, the government's success in controlling the growth of expenditure is viewed with caution. The country has huge unmet demand for economic infrastructures and social services, particularly in health and education. With the growth of mandatory expenditures (e.g. interest payments on government debt, personal services, and allocation to local government units), there is a danger that government expenditures on critical infrastructures and social services may be further sacrificed. Fiscal discipline, unless accompanied by improvements in strategic allocation and operational efficiency of government expenditures may result in a trade-off between short-term macroeconomic stability, and long-term growth and poverty reduction.

EMERGE Technical Assistance in Tax Administration

Under the reform theme of fiscal sustainability, EMERGE is providing technical assistance tasks designed to improve revenue collection and enhance public expenditure management. Four categories of technical assistance (TA) tasks, all of which have the potential of contributing to sustained increase in BIR revenue collection, are currently being implemented. The first category of TA activities aims to improve the administration of specific tax measures, namely, capital gains tax on real properties (ONETTT, or "one time tax transactions") and excise taxes on cigarettes. ONETTT is an application that EMERGE has been developing and is currently being integrated into the Bureau's integrated tax system (ITS). With ONETTT, the Bureau can facilitate taxpayer compliance, and minimize tax revenue erosion from undervalued real properties. According to capital gains tax experts in the Bureau, this capability may improve collection by about PhP150 million each year. A bigger leakage of capital gains taxes, estimated at nearly PhP2 billion may be traced to the problem of the registry of new land titles without the payment of the capital gains taxes. This problem may be addressed in the future with improved coordination between the Bureau and the Office of the Register of Deeds.

As for excise taxes on cigarettes, EMERGE is helping the Bureau's Large Taxpayer Service develop an industry audit framework, even as it is helping the agency codify excise tax laws and implementing revenue orders as well as implement the proof of payment provision in the tax code with regards to the cigarette excise tax. Anecdotal information provided by a tax collector of the Bureau places the drain on tax collection at PhP 1 to 3 billion a year. The audit framework, codification of excise tax laws and the implementation of a more cost-effective proof of payment of the cigarette tax will help the LTS improve its enforced collection effort in cigarette excise taxes in particular, and that for alcohol and spirits.

The *second* category of TA tasks provides the benefit of improving taxpayer compliance and accordingly the Bureau's tax collection performance. These tasks include the tax compliance

verification drive (TCVD), streamlining of the tax rulings, and the training of BIR officials on the new Philippine financial accounting and reporting standards. In its TCVD TA activity for the BIR, EMERGE is helping to streamline and standardize the procedures for conducting tax mapping to improve the effectiveness and minimize the incidence of corruption or abuse of taxpayers. An application software is also being developed that will enable BIR mobile revenue officers to access the Bureau's data warehouse, and perform on-the-spot verification of taxpayers' compliance with the use of ordinary mobile phones. The application software also includes web portal report generation to allow for automatic generation of reports while conducting TCVD. The increased capability of the Bureau to conduct tax mapping is expected to result in greater taxpayer satisfaction and compliance, an expanded tax base, and higher tax collections..

In its tax rulings project at the Bureau, the EMERGE project has been requested to streamline and design a workflow for processing and monitoring the rulings issued by the Bureau. An earlier project, which USAID had supported at the Department of Finance, uncovered the existence of rulings that are inconsistent with the law and with similar rulings issued by various units of the Bureau. EMERGE technical assistance activity provided the Bureau's legal division and the Commissioner the design of an automated tax rulings system (ATRS), which if developed and adopted by the Bureau, will help develop a capability to monitor all rulings, assess their legality, ensure internal consistency, improve the quality and facilitate the taxpayers' access to guidance from the Bureau, as well as prevent the annual drain to tax collection from the issuance of illegal rulings. As a result of this project, the Bureau will be issuing revenue regulations and memorandum orders and/or tax rulings aimed at correcting any incorrect guidance that had been issued before, which will then reduce tax leakages.

To avoid friction between taxpayers and the Bureau's examiners, which may possibly lead to costly litigations brought about by the country's shift to international accounting and financial reporting standards, the EMERGE project has conducted a training program on these standards, which is specially tailored for the Bureau's examiners. This training program has already caused the Bureau's officials to revisit a few of its revenue memorandum orders in light of the globalization of financial and accounting systems.

The *third* category includes activities that provide BIR access to information on transport operators, compulsory motor vehicle liability insurance, popularly known as the compulsory third party liability (CTPL) insurance, and passenger insurance from other agencies of the government. Based on existing statistics provided by the Insurance Commission on CTPL from 2002 to 2005, 30 per cent of the motor vehicles registered each year at the LTO are not covered by an authenticated COCs, and 17 per cent of the COCs had not been verified. The tax on CTPL insurance is supposed to yield twice what the BIR is getting presently. In 2005, the BIR collected about Php 300 million of CTPL-related taxes on a base that experts say was half of actual.

By helping related government agencies work together and share information regarding CTPL, this TA has the potential of helping the BIR improve its collection not only in CTPL but also in many other insurance-related tax measures. The Insurance Commissioner calculated that the BIR ought to have collected in 2006 at least Php 16 billion from insurance companies, but it

collected only PhP 9 billion. The Land Transportation Franchising and Regulatory Board (LTFRB), which is one of the agencies covered by this technical assistance, tends to receive better financial records of public transportation companies when they apply for franchise renewal every year. If that information is provided to the BIR, the latter can improve its enforced collection of the common carrier and corporate income taxes. These are but a few important doors to improving tax collection that this EMERGE third party information project has identified.

The *last* category of assistance is the installation of a performance management system in BIR, which is designed to strengthen tax administration by developing tools for performance target setting, monitoring, evaluating and rewarding; and to help the Bureau implement the Performance Attrition Act of 2005.

Technical Assistance to the DBM

On improving public expenditure management, EMERGE has three on-going TA tasks for the DBM to help build its capacity in leading and promoting fiscal discipline, strategic allocation of resources, and operational efficiency in public spending.

First is the assistance to the implementation of Executive Order 366, which is aimed at the rationalization of functions and structure of the government to make it efficient, effective and results-oriented. Pursuant to EO 366, all government agencies are tasked to prepare their respective Rationalization Plans to be reviewed by a composite team of the DBM, the Civil Service Commission (CSC) and, the Department of Finance (DOF). The EMERGE project has contracted sector experts to conduct sector studies and provide advice and guidance to the composite team in reviewing and enhancing the rationalization plans of the agencies before these are endorsed to the President.

Another technical assistance task for DBM is the formal orientation to the Program Assessment Rating Tool (PART) of the Office of Management and Budget of the US government. The PART consists of a set of questions covering four critical areas of assessment—purpose and design, strategic planning, management, and results—which are used to assess the effectiveness of specific federal programs. The PART orientation can provide insights and lessons that can be useful to the DBM in improving its public expenditure management programs.

The third technical assistance to DBM is concerned with promoting efficiency, transparency and accountability in the budget releases and implementation of certain lump sum appropriations in the national government budget. The lump sum appropriations include the Priority Development Assistance Fund (PDAF), Internal Revenue Allotment (IRA), Department of Public Works and Highways Congressional Allocation, and School Building Program (SBP) Fund. The technical assistance consists of: (1) streamlining and automating the authorization process for their budget releases, (2) designing a database of budget releases which should be capable of generating various reports that will be automatically uploaded in the DBM website for public scrutiny.

Earlier, EMERGE helped DBM reconcile its procurement manuals with the new Procurement Law.

Expanded Trade and Investment

The different tasks under this reform theme are designed to create an enabling environment that will facilitate and expand trade and investments in the country.

Trade Facilitation

With trade barriers going down across the world, the sustained growth of the country's external trade increasingly depends upon its pace of reducing trade-related transaction costs. The World Bank Group, using data from its surveys on Costs of Doing Business, reported that in 2006 it took two days to clear either exports or imports through Philippine Customs at official costs that sum up to US\$37. Customs clearance time for imports typically involved 30 to 36 hours per shipment based on BOC data gathered in 2003.

Trade-related costs depend upon the level and quality of infrastructure facilities and regulatory services at the border. The EMERGE project has focused its technical assistance (TA) towards improving the business procedures of the Bureau of Customs and its trade-related regulators. Trade facilitation using information technology will be promoted through the TA at the Department of Agriculture (DA), Bureau of Customs and the Bureau of Product Standards (BPS). The World Customs Organization has recognized technology to be an effective driver of facilitating trade and improving governance by trade-related agencies.

The TA at the DA on harmonizing and streamlining the administration of sanitary and phytosanitary measures and the national single window (NSW) are expected to reduce the average time required for the processing at the border of agricultural imports requiring sanitary measures, as well as to reduce opportunities for corruption. Through its features of single submission and synchronous processing of data and information, as well as single decision-making for customs release and clearance, the national single window is the e-governance framework aimed at facilitating trade and reducing opportunities for corruption.

The establishment of the standards and conformance portal at the BPS will provide a seamless facility that enables the business sector to have easy access to information on standards and technical regulations and conformity assessment requirements of the country, as well as that of the country's trading partners. By reducing information and compliance costs, the portal will help the business community effectively improve market access and secure its import requirements. In helping the BPS with its standards and conformance portal, EMERGE also sets a pre-condition for making this connectivity with the Bureau of Customs for NSW possible. Like the nine DA SPS regulators, the BPS and BOC can implement a national single window in order to facilitate non-agricultural trade.

As the convener and fulcrum of the National Single Window, the Bureau of Customs has to simplify and harmonize its customs procedures with the rest of the country's trading partners. Towards this end, the Commissioner of Customs announced during the Bureau's 105th founding anniversary the agency's plan to accede to the Revised Kyoto Convention (RKC) in 2007. This will improve customs procedures and, hence, reduce the time required for imports as well as exports to be cleared at the border and reach their destinations. He adopted the National Strategy for RKC compliance, which lays down the measures the Bureau will be taking in the medium term to become fully compliant.

Even as it is still in the process of securing the concurrence of Philippine authorities for the country to accede to RKC, the Bureau is already improving or planning to improve selected customs administration procedures, with EMERGE assistance, in pursuit of harmonizing them with international best practices. One reform is enhancing the capacity of its Post Entry Audit Group (PEAG) to undertake a risk-based, transparent, and replicable selection of auditees, field audits, and other post-entry risk-based control measures, including voluntary disclosures. EMERGE is helping PEAG carry out these reforms at the request of the Commissioner of Customs.

Secondly, the Bureau is planning to re-codify the customs code of 1978 to incorporate the reforms taken by the government in light of recent developments affecting customs administration, including transaction valuation, electronic commerce, and risk-based customs control procedures. EMERGE has been requested to assist the Bureau develop a blueprint for modernizing the country's customs code.

Thirdly, the Bureau is institutionalizing its performance management system (PMS) that is anchored on a balanced scorecard. The PMS follows a four-stage process composed of performance planning, monitoring, evaluating, and rewarding. The results of performance evaluation are used as the basis for rewards and continuous improvements of customs administration procedures to ensure greater compliance and trade facilitation.

Lastly, the BOC has requested EMERGE assistance in institutionalizing the country's national single window. While E.O. 482 enables this reform, information technology drives it. Using its own resources, the Bureau is completing a major upgrade of its automation capability based on web-based Asycuda World. This capability places the Bureau in a position to shepherd the country's trade-related regulators and enhance governance at the border through the NSW.

The above trade facilitation measures are complemented by building the capacity of the government and the civil society, through the global trade e-learning program, to understand and participate in international trade discussions and negotiations.

Attracting Direct Investments

Improving the investment climate remains a big challenge to policymakers. While investments went up by 73.41 percent in 2005-2006, foreign investment in the country remains low compared the country's neighbors. The investment climate will be improved by reducing transaction costs and risks associated with doing business in the country. Investment on emerging coconut products has been on the rise in recent months. The 5000 nuts-a-day business model developed for the Board of Investment (BOI) provides investors a way to spread the risks in integrating the various production activities for emerging coconut products and transaction costs in their purchase of whole nuts. Small coconut farmers are expected to triple their income by developing a market for whole nuts. Likewise, the recent passing of the Biofuels Act (RA 9637) is expected to boost investment in the coconut industry, since coconut is a major input to biofuel.

The TA for the DA and BFAD to develop better policy framework and regulations for modern biotechnology, the improved compliance of technology developers with biotechnology regulations, and the greater public acceptance of biotechnology products are all expected to increase investment in the development of biotechnology and its products.

EMERGE TA in mining is expected to help it fuel exports in the coming years. Higher commodity prices in 2006 more than doubled the export receipts for copper concentrates, copper metal, gold, iron ore agglomerates, chromium ore, nickel concentrates, and other minerals. Metallic mining exports jumped from \$819 million in 2005 to \$2.058 billion in 2006, contributing 21% to the growth of the country's overall exports and helping weather the adverse effects on exports of peso appreciation in that year. The peso appreciated by 7.4% vis-à-vis the US dollar in 2006.

More and Competitively Priced Infrastructure Services

The inadequacy of infrastructure has been a significant factor deterring investments and growth, especially in regions outside Metro Manila. Inter-island shipping, road transport and communication costs influence the growth and competitiveness of domestic trade in the Philippines. The integration of the domestic market to the emerging global supply chain of goods and services will require more competitive and efficiently regulated infrastructure that will help domestic producers to source cheap raw materials and transform them into finished goods and/or services which are then delivered on a timely and competitive basis to customers worldwide.

Ports and Shipping

EMERGE reform efforts in ports and shipping and information and communications technology (ICT) have contributed to making infrastructure more efficient. Due to earlier reform efforts by the government, the traveling public and the business sector have now started to experience the positive impact of the Roll-on Roll-off Terminal System (RRTS) in the Batangas-Roxas (Mindoro)-Caticlan (Aklan) route. The local areas benefiting from this component of the RRTS have shown a substantial increase in economic and business activities, with great impact on employment and poverty reduction. EMERGE technical assistance (TA) to provide an investment folio for the Central Nautical Highway route (Bicol-Masbate-Cebu) will enable investors (LGUs and private sector alike) to make investment decisions leading to the linkage of these provinces via the RRTS. It is expected that the local economies linked to the Central Nautical Highway will experience the same positive benefits shown in the Batangas-Mindoro-Aklan route. As part of the overall effort to institutionalize Roll-on Roll-off (RoRo) policy, a draft RoRo bill has been filed with Congress. This bill benefited from discussions of the technical working group where EMERGE consultants have provided important inputs. Once passed into law, RRTS will be institutionalized, making it an integral part of the highway system that will contribute to overall reduction in transport costs, because RoRo vessels will be subject only to road toll fees in lieu of the present practice of charging a terminal fee, passage fee and berthing fee under the concept that RRTS is part of regular shipping.

Related to this, the recent EMERGE technical assistance on ports and shipping has already led to the elimination of unnecessary fees and charges imposed on RoRo vessels, and thus, to a reduction in cost of transport. The Department of the Interior and Local Government issued a memorandum circular instructing all local mayors and provincial governors to stop the collection of wharfage dues, the double charging of RoRo terminal fees and illegal collection of fees and taxes by some LGUs. Recently, by virtue of EO 170-B, private, non-commercial ports can now legally be used in commercial RoRo operations. These reform efforts in ports and RRTS will

reduce transport costs for the traveling public and the business sector and result in greater integration of local markets and increased economic and business activities in the regions outside Metro Manila. The final impact will be local economic growth and poverty reduction.

Road Transport and Private Sector Participation

In the same vein, EMERGE TA in road transport and build-operate-transfer (BOT) contract governance have laid down the basis for more efficient road infrastructure and greater private sector participation (PSP) in BOT projects in the future. In road transport, the poor state of roads drives up vehicle operating costs. The Road Board Secretariat has submitted to the Road Board several recommendations to improve the implementation of the Road Fund for road maintenance. For the Philippines to latch on to the renewed international interest in infrastructure investments and financing, it needs to rework the BOT Law and regulations to encourage and better manage PSP, while removing unreasonable risk assumptions for government and moral hazards for private parties. NEDA and other government agencies have amended the implementing rules and regulations of the BOT law and are working on a draft legislation to revise the BOT law. The government is engaged in a serious review and restructuring of its processes and procedures to encourage greater private sector participation in infrastructure. The expected result will be increased private investments in infrastructure.

Telecommunications

In telecommunications, the Philippines has laid the foundations for a competitive market which has improved the access of the public to efficient means of communication and other IT-enabled services. In this regard, the National Telecommunications Commission (NTC) has ruled that VOIP is value added service, which has resulted in an increase of VOIP providers and a decline in telecommunications costs. Telecommunications carriers are offering as low as 5 cents per minute for overseas calls made using VOIP technology, an 87.5% drop from the usual 40 cents per minute. At least 17 firms have been given licenses to provide VOIP services.

The NTC has also issued a consultative document on the development of a competition policy framework for the information and communications technology sector. This paves the way for the development of guidelines for reference interconnection offers (RIOs) and significant market power obligations (SMPOs). EMERGE is currently assisting NTC in developing those guidelines. The expected issuance of NTC of a policy statement on SMPOs and guidelines on RIOs will result in more competition in the telecommunications market, which will drive down communication costs for the consumer and business sector.

Privatization of Public Sector Assets

Another important area of reform in the infrastructure sector is the privatization of specific public sector assets. The successful privatization of government assets and corporations in the past has contributed to national government revenues, the development of the capital markets and private sector participation in business activities instead of the government being engaged in business. With the current fiscal situation, the Department of Finance (DOF) is once again looking at privatization as a potential source of revenues and greater private sector participation in the economy. In 2006, the revenue proceeds from privatization were 5.8 billion pesos, exceeding programmed revenues of 500 million pesos. The 2006 privatization proceeds are highest in a decade. Except for 1994 and 2005, privatization has performed below target and this is the second year in a row that it has exceeded the government's target revenues. The successful sale of Maynilad to private investors signals government's serious effort in privatization. The

government sold the controlling stake to the highest bidder at its acquisition cost (approximately \$56 million). The winning bidder was selected as the one willing to commit the largest amount of additional capital into the company. The winning consortium, DMCI Holdings, Inc. bid \$447 million of committed capital with the runner up, Manila Water, bidding \$400 million. The government is currently working on the privatization of PhilNico, Al Amanah Bank and other state-owned assets.

Vibrant Banking and Capital Markets

Under Reform Theme 4, the EMERGE team continues to assist Philippine stakeholders build the systemic foundations for banking and capital markets (Reform Objective 4.1) as well as attain competitive parity of the sector's sub-markets (Reform Objective 4.2). The project has identified several reform milestones, to which it can relate its technical assistance to its counterparts. In time, these reforms will have their imprint in an improved financial intermediation in the Philippines, needed to mobilize more resources for investment and job creation.

Setting the Capital Market Reform Agenda

In Task 4.1.1.2(a), the EMERGE team set out to lay down the core principles underlying the development of the country's capital markets. The sector's underdevelopment reflects the deviation of policies, regulations, and business practices of stakeholders from the core principles. The team had planned to flesh out these principles through subsequent TA activities, which the BSP Governor Amando Tetangco, Jr., requested. However, the project's reduced funding compelled more focus to undertake specific reforms of high priority: financial sector tax reforms and adapting Basel 2 obligations to Philippine conditions.

The project continues to enjoy high profile support from both the government and private sector. In the workshop that the Capital Markets Development Council (CMDC) held to discuss the EMERGE report on "Financial Market Core Principles and An Enabling Environment for the Capital Market" on October 24, 2005, the attendees included former Governor Rafael Buenaventura, BSP Gov. Amando Tetangco, Jr., Deputy Gov. Nestor Espenilla, members of the Monetary Board, Finance Secretary Margarito Teves, Securities and Exchange Commissioner Poblador, Insurance Commissioner Evangeline Escobillo, the Philippine Deposit and Insurance Corporation President Ricardo Tan, as well as the presidents/CEOs of the different private sector organizations in the financial sector. The participants received the EMERGE report well and the stakeholders manifested their keen interest in actively participating in defining the capital market reform agenda in 2006.

Promoting Household Saving

The project completed a technical assessment of saving patterns and behavior of Philippine households (Task 4.1.1.1(a)). Requested by BSP Deputy Governor Nestor Espenilla, the assessment was identified looked for ways to improve its regulations and expand savings. The objective was to identify the demographic variables affecting saving at the household level. Espenilla explored as well the possibility of institutionalizing a Consumer Finance Survey to provide the BSP a regular stream of information to improve its policies and regulations.

The EMERGE consultants identified the determinants of household saving in the Philippines and differentiated these by regions. They used family and income expenditure survey data from 1985 to 2003. The Monetary Board members accepted the study's findings and look forward to a

follow-on activity to bring an expert from the U.S. Federal Reserve to help the BSP develop a Consumer Finance Survey (CFS). With the CFS design, the MB may then consider the EMERGE team's recommendation to institutionalize the CFS as a rider to the triennial Family Income and Expenditure Survey, administered on another day, to a panel of around 2,000 households.

Real Estate Appraisal Reforms

At the request of BSP DG Espenilla, EMERGE completed an assessment of the real estate appraisal practice in the Philippines (Task 4.1.2.4(a)). His aim in this TA activity was to understand the vulnerability of the banking system from non-market valuation of real estate, which is commonly used as collateral. The inception report of the EMERGE Real Estate Appraisal consultant was translated into a strategic roadmap with specific timelines. DG Espenilla accepted it and has begun to build a coalition of stakeholders to implement it.

BSP Deputy Governor (DG) Nestor A. Espenilla, Jr., asked for further assistance so that the initial report of Mark Bates, Real Estate Appraisal consultant, about a framework to guide appraisers in real property valuation, can be translated into a strategic roadmap with specific timelines. Mr. Bates submitted this roadmap in late November 2005 and DG Espenilla accepted it. DG Espenilla believed, however, that many of the essential reforms identified by Bates are beyond the purview of the BSP, and he worked with another regulator, Mr. Victorino Dimagiba of the DTI Bureau of Trade Regulations and Consumer Protection to mobilize the real estate appraisers to implement the blueprint for reform.

In response to Espenilla and Dimagiba's request, EMERGE organized a two-day symposium on real estate appraisal reforms on September 11 and 12, 2006 (Task 4.1.2.4(c)). About 130 participants attended the two-day symposium, which was organized with the participation of Philippine-Australia LAMP II project. The practitioners and private sector stakeholders of the real estate appraisal practice in the Philippines, who are members of the Realty Service Council of the Philippines (RESCOP), made up the bulk of the participants. Besides RESCOP, the representatives of government agencies, who have a stake in a professional real estate appraisal practice in the country participated in the symposium.

The event was designed to provide a venue for identifying and planning critical reforms in the real estate appraisal practice. Its broader objectives included the professionalization of real estate appraisal and the institutionalization of a transparent, market-based valuation of real properties in the country. EMERGE consultant Mark Bates was one of the three resource speakers in the symposium. Mr. Hamish McDonald, a LAMP consultant, and Ms. Marissa Benitez, the Chairperson of the Philippine Association of Realty Appraisers, Inc. (PARA), were the other two resource speakers.

An action plan for real-estate appraisal reforms was crafted. The participants drafted reform action plans in four major areas of concerns, namely education, licensing and accreditation, market transparency as well as regulation and association enhancement. One highlight of the symposium was that the country's two associations of real estate appraisers agreed to start their negotiations toward a merger into one association. In the next period, EMERGE expected to work with the RESCOP members to begin implementing the action plan. The symposium provided the blueprint for reforms wider dissemination and opportunity for improvement.

Fixed Income Exchange

Another specific reform was to help stakeholders develop a fixed income exchange. Partly with USAID assistance in previous projects, the private sector stakeholders incorporated the Philippine Dealing and Exchange Corporation (PDEX), which was given a license by the SEC to operate such an exchange. The PDEX management asked EMERGE assistance to undertake public market operations. EMERGE hired Ms. Valerie McFarlane in October 2005 to outline the various issues and recommend solutions for the launch of the public market.

While the launch of the Public Market trading has yet to materialize, McFarlane's final report was accepted by the counterpart and its technical recommendations will be implemented when public market trading is launched. Among the factors preventing the launch of public trading of fixed income securities is the need to resolve connectivity problems with the Bureau of Treasury system. Another need was for an independent assessment of the readiness of PDEX to launch the trading. It asked EMERGE for further assistance, but the project declined financial support for this due to reduced funding.

Reining In Inflation

The BSP has pursued a policy of targeting inflation, and it has been successful in this regard despite challenges such as the sharp increases of petroleum prices. The project had contributed to developing this capability of the BSP to targeting the country's inflation rate. In a meeting between BSP and CARANA/Nathan management, Mr. Dakila from the BSP said that they were very pleased with the assistance provided by EMERGE to the BSP on developing the *output gap model* (Task 4.1.2.4(a)). He pointed that the BSP had adopted the recommendations that came out of this task, which is to combine the three output gap models BSP developed and estimated, under the tutelage of the EMERGE consultant, with the rates of growth of broad money, nominal wages and oil prices for forecasting inflation. The model has performed well, and therefore can be of great use to the BSP in policy analysis and forecasting.

McNelis presented the model twice to the Monetary Board, one at its unofficial meeting on Monday, in which he, along with Mr. Francis Dakila and Cris Bagsec, discussed their research on output gaps as predictors of inflation for the Philippines. McNelis then gave a more formal, brief presentation to the Board at its official meeting. The Board accepted the measurements of output gap as indicators of inflation. It was agreed that the Board would not disclose its own estimates of the output gap but would make use of alternative measures of this variable. McNelis also gave a presentation to the staff of the Center of Monetary and Financial Policy on ways to assess the broader consequences of monetary policy, in particular banking sector liquidity needs, in the inflation targeting program.

Section I - CONTRACTOR'S REPORT

A. Narrative:

1) Contract Delivery Order Final Objective: The Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity is to contribute towards USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-liberalization partners and stakeholders. It has two broad objectives. It will contribute to:

- continuing policy liberalization in the Philippines, and
- increasing the degree of competition in the Philippine economy.

The contractor is responsible for the following major task areas:

- 1) policy analysis and technical assistance;
- 2) administration of grants to NGOs and nongovernmental research institutions;
- 3) administration of the Special Activities Fund (SAF);
- 4) SO2 monitoring, assessment, reporting; and
- 5) public information and consultations.

The 3-year Contract Delivery Order authorized a total level-of-effort of 7,504 workdays, which may be adjusted by written approval of the CTO subject to the delivery order ceiling price of US\$11,333,829. The Delivery Order was signed on August 23, 2004, and expires on August 22, 2007. The remaining balance of the delivery order, as of March 31, 2007, was \$2,850,217.39.

2) Expected Results: Performance monitoring will be based on assessment of results obtained compared to those projected in the implementation work plans. The two stated EMERGE objectives, i.e., increase liberalization and increase competition, are outside the manageable control of the EMERGE contractor. These can only be produced by the people of the Philippines, including government entities and the private sector. Through EMERGE activities, however, the contractor can contribute significantly to understanding and appreciation by stakeholders, policy makers and interested parties of the costs to the economy (e.g., employment and foreign exchange earnings foregone) from policies or practices that allow economic rents or of monopoly profits from cartel-like arrangements. Thus, performance criteria for annually-approved implementation work plans will concentrate on the effectiveness of the contractor in selecting, designing, implementing and disseminating work designed to increase policy maker, stakeholder and public awareness.

The contractor is to develop specific performance indicators that are linked to policy actions actually taken in the course of the Activity. These indicators will be included in each implementation work plan, with targets specific to each work plan.

3) (a) Current Core Activities: The contract defines (in subsection 4.2.) the major task areas listed in paragraph 1) above. The following activities were expected to be undertaken during this reporting period within each of the major task areas listed below, in addition to routine administrative tasks.

Administrative Tasks

During the first quarter of 2007 EMERGE was to submit the quarterly report for the preceding quarter by January 30. It was to support another Policy Advisory Committee (PAC) meeting as the committee's secretariat and submit its 2007 Annual Work Plan for PAC review and concurrence.

TASK 1 - Policy Analysis and Technical Assistance (TA)

The 2007 Work Plan, like those of previous years, identifies four major economic policy reform themes or purposes that contribute to the overall goals of more productive jobs created and poverty reduced: 1) a sustainable fiscal position, 2) expanded trade and investment, 3) more competitive and efficiently regulated infrastructure, and 4) vibrant banking and capital markets. It identifies 9 EMERGE reform objectives to help the Government of the Republic of the Philippines (GRP) achieve these purposes, and 22 reform results to achieve the EMERGE reform objectives. This year 7 specific new tasks are then proposed as EMERGE-supported activities, along with a continuation and completion of 37 tasks started earlier, to help the GRP and the Philippine civil society obtain those results in 2006. Some 51 tasks identified in previous annual work plans have been completed (only 16 of these are listed in Table 1) and 14 have been dropped for reasons discussed below.

The EMERGE Results Framework is presented in Figure 1. The specific tasks proposed for EMERGE support in the 2007 Work Plan, and the reform objectives and results they target, are listed below in Table 1 and the following narrative, together with the progress expected during this reporting period as discussed in the previous quarterly report.

Figure1. EMERGE Results Framework 2004-2007
As Amended in EMERGE 2006 Work Plan

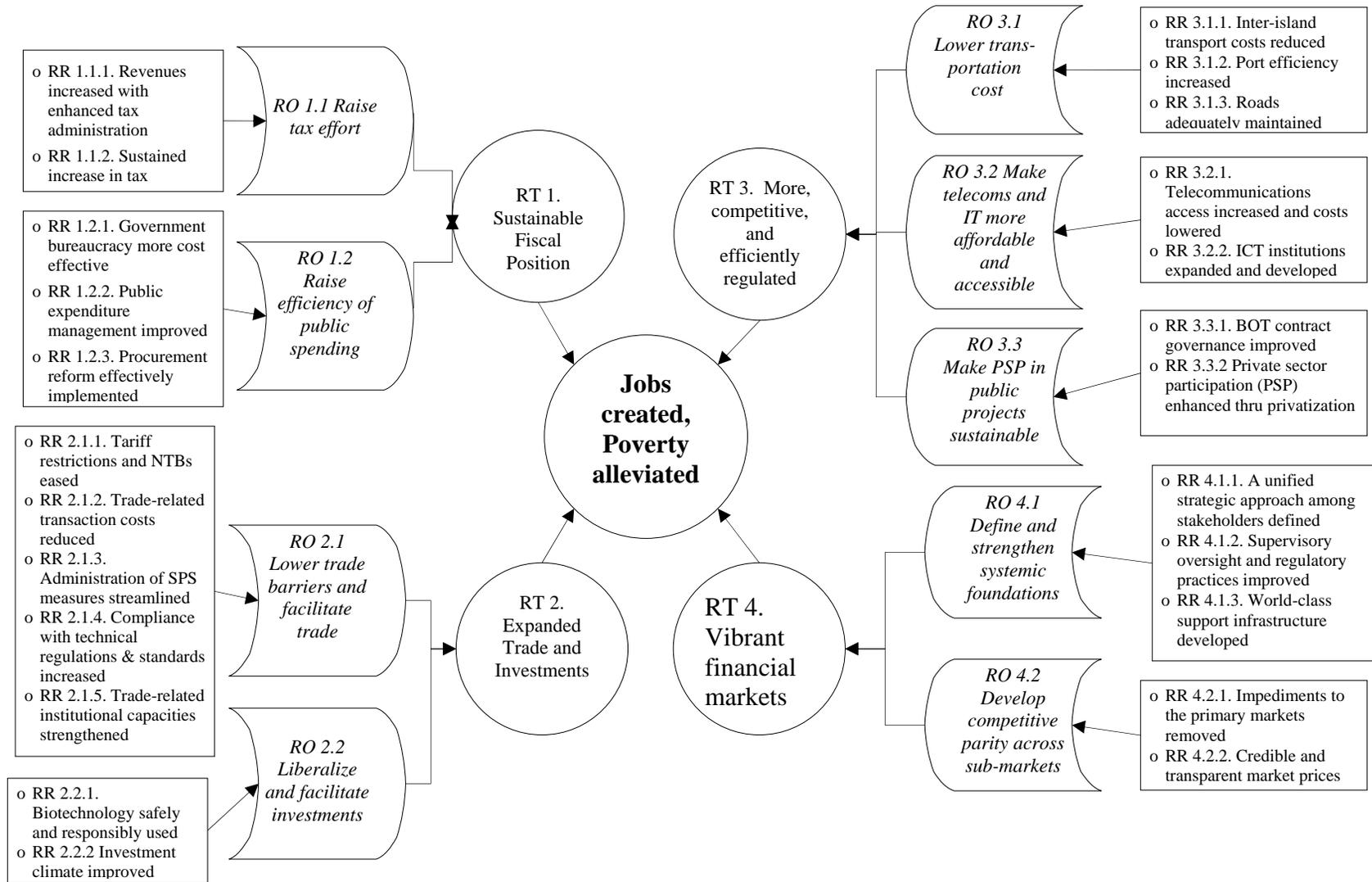


Table 1. EMERGE 2007 Technical Assistance Tasks

Reform Theme (RT)	Reform Objectives (RO)	Reform Results (RR)	Technical Assistance Tasks (On-going tasks are in clear cells, those in green cells are completed, those that EMERGE dropped are in light red cells and new tasks are in light gray cells.)	
RT 1. Manageable Fiscal Deficit	1.1 Raise the tax effort.	RR 1.1.1. Revenues increased with enhanced tax administration.	1.1.1.1 Enhancing the BIR's One Time Tax Transactions (ONETTT) System	
			1.1.1.3 Improving the administration systems of selected tax measures	
			1.1.1.4 Aligning tax rulings with tax code, laws and regulations and streamlining the tax rulings process at the BIR	
			1.1.1.5a Establishing integrated systems of motor vehicle registration, land public transport franchising, insurance and taxation	
			1.1.1.5b Designing and legally enabling a database and clearing system for compulsory insurance transactions	
			1.1.1.6 Assessing options for implementing the proof of payment provision in the tax code for excise taxes and updating/consolidating regulations on cigarettes	
			1.1.1.7 Designing a more effective tax compliance and verification drive (TCVD)	
			1.1.1.8 Upgrading tax accounting practices of the BIR to International Financial Reporting Standards (IFRS)	
	1.2 Raise the efficiency of public spending	RR 1.1.2. Sustained increase in tax collection.	1.1.2.2 (a) Installing Office-Level Performance Management System (PMS) at the BIR, Wave 1	
			1.1.2.2 (b) Installing Office-Level Performance Management System (PMS) at the BIR, Wave 2	
			1.1.2.3 Designing a system for rationally allocating the annual revenue targets of the Bureau of Internal Revenue to its districts, officials and employees	
		RR 1.2.2. Public expenditure management improved	RR 1.2.1. Government bureaucracy more cost effective	1.2.1.1 Improving Agencies' Re-structuring Plans under EO 366
			1.2.2.1 Institutionalizing a capacity at DBM to prepare a budget strategy paper and use it in planning the budget	
			1.2.2.2 Exploring the feasibility of adapting the Performance Assessment Rating Tool of the USG/OMB to the Philippines	
1.2.2.4 Institutionalizing DBM's capability to publish timely information on its website on appropriations and budget releases of infrastructure and development projects of legislators				
1.2.2.5 Improving the public expenditure management system				
RT 2. Expanded Trade and Investments	2.1 Lower trade barriers and facilitate trade	RR 2.1.1. Tariff restrictions and Non-tariff Barriers (NTBs) eased	2.1.1.1 Assessment of the economic impact of trade liberalization	
		RR 2.1.2. Trade-related transaction costs reduced	2.1.2.3 Analysis of the Revised Kyoto Convention as input to the preparation of a national strategy paper on Philippine compliance with the Convention	
			2.1.2.4(a). Customs - PMS Orientation Workshop 18-19 Sep 06	
			2.1.2.4(b). Enhancing the capacity of the Post-entry Audit Group (PEAG) of the Bureau of Customs (BOC) to undertake post-entry customs audits	
			2.1.2.4 (c) Institutionalizing PMS at the Bureau of Customs	
		2.1.2.4 (d) Modernizing the country's customs code		
		RR 2.1.3 Administration of SPS measures streamlined	2.1.3.1(a) Improvement of the Department of Agriculture's SPS administration systems, Phase 1	
			2.1.3.1(b) Improvement of the Department of Agriculture's SPS administration systems and National Single Window Implementation, Phase 2	

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		RR 2.1.4 Compliance with product technical regulations & standards increased and cost of compliance reduced	2.1.4.1(a) Development and establishment of a standards and conformance (S&C) portal, Phase 1
		2.1.4.1(b) Development and establishment of a standards and conformance (S&C) portal, Phase 2	
		RR 2.1.5 Trade-related institutional capacities strengthened	2.1.5.1 Philippine global trade e-learning program
	RO 2.2 Liberalize and facilitate investments	RR 2.2.1 Agriculture biotechnology safely and responsibly used	2.2.1.2 Formulation of Insect Resistance Management (IRM) Strategy and development of regulatory protocols
			2.2.1.3 (a) Institutional capacity building and information, education and communication (IEC) campaign on modern biotechnology in support of Task 2.2.1.2
			2.2.1.3 (b) Institutional capacity building and information, education and communication (IEC) campaign on modern biotechnology in support of Task 2.2.1.5
			2.2.1.4 Capacity building for public research institutions to comply with biosafety regulations for transgenic crops
			2.2.1.5 Developing the policy, regulatory, and institutional capacity of DA and BFAD on biopharming
		RR 2.2.2 Investment climate improved	2.2.2.1 Diagnostic assessment of investment climate in emerging coconut products
			2.2.2.2 Improve business development support services for SMEs
			2.2.2.3. Establishment of feedback mechanisms between investors, their business associations and Philippine government authorities to act on investment bottlenecks
			2.2.2.4 Establishment of mechanisms to increase Philippine stakes in stronger intellectual property rights (IPR) enforcement
			2.2.2.5 Accelerating land titling in the Philippines through a better use of existing survey and land-related records
			2.2.2.6 (a) Improving transparency of payments and receipts in the mining industry
			2.2.2.6 (b) Manpower and remuneration assessment in the mining industry and improving transparency in payments and utilization of mining taxes
RT 3. More, Competitive and Efficiently Regulated Infrastructure	RO 3.1 Lower transportation cost	RR 3.1.1 Inter-island shipping cost reduced	3.1.1.2 DBP lending policies and guidelines on private sector access to infrastructure funds streamlined
		3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project (Eastern and Palawan nautical highways)	
		RR 3.1.2 Port efficiency Increased	The task under this RR is integrated with Task 3.1.1.1
	RO 3.2. Make telecommunications and information technology more affordable and accessible	RR 3.2.1 Telecommunications access increased and costs lowered	3.2.1.1 Laws and regulations supportive of ICT sector development drafted (spectrum management policy, rules and regulations)
		3.2.1.2 (c) Building capacity in NTC to implement competition policy in the ICT sector	
		RR 3.2.2 ICT institutions expanded and developed	3.2.2.1 (c) A strategy and plan to expand the use of VOIP and Internet technology in the regions developed (Last Mile Initiative), Phase I
3.2.2.1 (d) A strategy and plan to expand the use of VOIP and Internet technology in the regions developed (Last Mile Initiative), Phase 2			
3.2.2.2 Formulating a new Road Map for the Development of the Philippine ICT sector			

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	RO 3.3 Make private sector participation (PSP) in public projects sustainable	RR 3.3.1 BOT contract governance improved	3.3.1.1 Development of options to improve build-operate-transfer (BOT) contract governance
		RR 3.3.2 Private sector participation enhanced thru privatization	Task 3.3.2.1 (b) Inventory of GRP assets for privatization
			3.3.2.1 (e) Formulation of strategies for the privatization of state-owned enterprises
RT 4. Vibrant Financial Markets	RO 4.1 Define and strengthen systemic foundations	RR 4.1.1. A unified strategic approach among stakeholders defined	4.1.1.1 (a) Assessing saving patterns and behavior in the Philippines
			4.1.1.1(b) Designing the Philippine Consumer Finance Survey
			4.1.1.2(b)(c) Defining the Philippine Capital Market Reform Agenda
			4.1.1.3(a) Undertaking a policy review of financial sector taxation, Phase 1
			4.1.1.3(b) Undertaking a policy review of financial sector taxation, Phase 2
		RR 4.1.2 Supervisory oversight and regulatory practices improved	4.1.2.1 TA to the Financial Sector Forum (FSF) to harmonize the supervisory framework of the financial market
			4.1.2.2 TA to the Securities and Exchange Commission (SEC) to enhance the regulation of the securities market
			4.1.2.3 TA to the Philippine Deposit Insurance Corporation (PDIC) to develop its risk management and regulatory capacities
			4.1.2.4(a) to (c) TA to the Bangko Sentral ng Pilipinas Supervision and Examination Sector (BSP-SES) to develop and strengthen the financial governance of the banking sector
			4.1.2.4(d) Valuation and risk parameter estimation for BSP – Basel II agreement
	4.1.2.4(e) SME business development support services: Developing a stable Geographical Indicators Code of real estate properties		
	4.1.2.5(d) Developing a capability to track the transmission of monetary policies to the various sectors of the economy		
	4.1.2.6 TA to the Insurance Commission (IC) to improve its regulatory and operational efficiency		
	4.1.2.7 TA to the Department of Finance to enhance its capital market initiatives and its oversights over GOCCs and GFIs		
	RR 4.1.3 World-class support infrastructure developed		4.1.3.1 Defining the Standards and Infrastructure for Cash & Retail Payments
	RO 4.2 Develop competitive parity across sub-markets	RR 4.2.1. Impediments to the primary markets removed	4.2.1.1 TA to develop local government unit (LGU) financing
			4.2.1.2(a) Evaluation of the CPIP Project for NCC
			4.2.1.2(b) Design and monitor microfinance portfolio
			4.2.1.2(c) CDA - Alternative dispute resolution mechanisms for the cooperative sector
			4.2.1.2(d) CDA - Database for cooperatives with savings and credit services
4.2.1.2(e) CDA - Training on supervision and regulation of cooperatives with savings and credit services			
4.2.1.2(f) CDA – Development of ADR training modules and conduct of training			
4.2.1.2(g) CDA – Corporate governance seminar for CDA Board of Administrators			
RR 4.2.2. Credible and transparent market prices instilled		4.2.2.1 TA to the Philippine Dealing System Holdings Corporation (PDS Group) to institutionalize the fixed income exchange	

Fiscal Sustainability-- Specific Tasks

Reform Objective 1.1 Increase tax revenues

Reform Result 1.1.1. Improved tax administration

Task 1.1.1.1 Improved One Time Tax Transactions (ONET³) System

Expected Performance Milestone: *The ONETTT application produced by this activity will automate the application and processing of the Certificate Authorizing Registration. The application will be available to BIR clients on its website. BIR will issue a Revenue Memorandum Order amending RMO 15-2003, prescribing the new rules and regulations for the payment of the capital gains tax on real property as reflected in the ONETTT application.*

The third prototype of the ONET³ application was completed and delivered by E-Konek to the Bureau of Internal Revenue (BIR) in mid-April 2006. The progress of the User Acceptance Test (UAT) was delayed by the heavy workload of the Quality Assurance Department particularly, the Information Systems Group, which is attending to several systems development and enhancement projects such as the e-ITS and e-FPS. The functional and technical testing of the ONET³ prototype was completed with the exception of the barcode solution component. The user test was also finished in the latter part of September; and the list of errors, discrepancies, and issues uncovered from testing the application was submitted to eKonek. During the last quarter the BIR ONET³ project team, headed by Ms. Carolyn Ann Reyes, submitted to eKonek initial results of user tests and synchronized testing, a documentation of discrepancy logs, a working list of exemptions, frequently asked questions (FAQs) on the application, a pilot acceptance checklist, and requirements of staging servers. A number of the discrepancy logs were due to delays in reconciling the respective status reports of BIR and eKonek and differences in computer environments. Policy issues material to the development of the application, such as the one property-one Certificate Authorizing Registration (CAR) policy and use of ordinary paper with security mark and barcode in lieu pre-printed forms, were resolved by the BIR ONET³ team together with Deputy Commissioner for Internal Revenue (DCIR) Lilia Hefti of the Operations Group.

The soft launch and pilot testing of the application at the Revenue District Office (RDO) 39 remained unscheduled at the end of 2006, as the BIR team awaited eKonek to close all the remaining discrepancy logs in the application.

Task 1.1.1.2 Revenue effects and structuring of tax administration reform initiatives

This task was completed during the last quarter of 2005. Four separate new tasks were spun off of this one, tasks 1.1.1.5, 6, 7 and 8. No additional activities have been identified under this task, which has been successfully completed.

Performance Milestones Achieved: *BIR accepted and is moving toward implementation of the following reform priorities suggested by the consultant's analysis:*

- 1) a web-based One Time Tax Transaction (ONETTT) system that taxpayers can use when paying for the capital gains tax when they sell real properties,*
- 2) the enhancement of the eSales system and the Mobile Revenue Officer System (MROS) to better enable them to detect taxpayer compliance, which is about to be implemented,*

3) how to improve the collection of (a) the document stamp tax on mandatory third party liability insurance, which vehicle owners must purchase each year when they register their vehicles with the Land Transportation Office (LTO), and (b) the common carrier tax that is collected from public land transportation companies, and
4) improving the collection of excise taxes on cigarettes.

Task 1.1.1.3 Improved administration systems of selected tax measures

With the selection and approval of a new team leader for the Fiscal Sustainability theme, this task is no longer needed.

Task 1.1.1.4 Tax rulings aligned with tax code, laws and regulations to improve tax collection and streamlining the tax rulings process at BIR

Expected Performance Milestone: *The DOF Secretary will revoke about 33 illegal tax rulings; as well as cause the modification or re-evaluation of hundreds of others. Streamlining the tax rulings application process will minimize the likelihood of illegal tax rulings in the future.*

Department of Finance (DOF) Undersecretary Emmanuel P. Bonoan requested EMERGE TA to help his office review previous BIR tax rulings for consistency with the law. USAID approved this TA in July 2005. However, Usec Bonoan put this activity on hold following the resignations in July 2005 of former DOF Secretary Cesar Purisima and BIR Commissioner Guillermo Parayno. ACIR Roldan later requested the TA include updating a previous study covering tax rulings from 1998 to 2001 and the rulings issued by BIR from 2002 to the present. The TA task was divided into two components:

First Component: Systems Study of the Tax Rulings Process. This consisted of streamlining of the tax rulings business processes and strengthening of the monitoring and oversight of tax rulings to avoid legally inconsistent and conflicting rulings. Mr. Jene Aliwalas and Mr. Edmund Guamen were contracted to provide expert service for this component beginning on September 19. It was divided to four phases, namely, Phase 1: Systems Investigation; Phase 2: Systems Analysis; Phase 3: Systems Design; and Phase 4: Systems Specifications for the Computerized Component. Each phase yielded a report to BIR, the first 3 of which were completed before the end of 2006, and the 4th one was expected to be finalized in January 2007.

Second Component: Review of Tax Rulings. The second component was to be a review of all the tax rulings issued by the BIR from 2002 to the present, which updates a 2002 DOF review of BIR tax rulings from 1998 to 2001. During the fourth quarter of 2006, this task was recast on the suggestion of Assistant Commissioner for Internal Revenue (ACIR) James Roldan. He opined that a full review of tax rulings could not be accommodated by the remaining project life of EMERGE. Alternatively, a planning workshop could be conducted to (1) review the findings of the inter-agency committee convened by the Department of Finance (DOF) in 2002 for the purpose of reviewing tax rulings for consistency with the law, since many of its recommendations remain unimplemented; and (2) cascade the findings of the first component on systems study to BIR staff. The implementation of this component was to be decided after the completion of the first component.

Task 1.1.1.5 Establishing integrated systems of motor vehicle registration, land public transport franchising, insurance and taxation

Expected Performance Milestone: Adoption of streamlined processes, harmonization of requirements and information sharing arrangements among LTO, LTFRB, IC and BIR, thereby allowing better assessment and collection of taxes.

USAID approved the TOR for this task on March 20, 2006. The Ramon V. del Rosario Center for Corporate Social Responsibility (RVR) Hills Governance Program of the Asian Institute of Management (AIM) was awarded a grant to implement this task with BIR, Land Transportation Office (LTO), Land Transportation and Regulatory Franchising Board (LTFRB), and Insurance Commission (IC). The work aims to analyze and streamline the motor vehicle registration and land public transport franchising processes and to study and harmonize their interfaces in the area of transport sector taxation and insurance, thereby improving the collection of taxes on comprehensive third party liability (CTPL) insurance and the common carrier tax on gross receipts of public transportation companies.

Four points of integration were initially identified: (1) LTO-LTFRB linkage for the establishment of a *colorum* vehicle database; (2) LTFRB- BIR linkage for the establishment of a tax clearance certificate database and its incorporation with the integrated tax system; (3) LTO-IC linkage for the establishment of the CTPL database; and (4) the maintenance of a unified chart of accounts to simplify the submission and checking of annual reports by transport operators. The fourth point, however, was not completed as the new leadership of the LTFRB did not consider it a priority.

The following outputs have been submitted: *Diagnostic Report on the Motor Vehicle Registration and Land Public Transport Franchising Processes and Sub-Processes* and *Proposed Systems Improvement Report*. In collaboration with an LTO study group, the motor vehicle registration track packaged its recommendations for process reengineering in an updated operations manual. The land transport franchising track similarly presented its recommendations for LTFRB processes in a guidebook, the contents of which were verified by the technical staff. The risk assessment of the taxation of motor vehicle registration and transport franchising was likewise finalized.

The principles, general features, and draft memoranda of agreement (MOA) and rules and regulations governing the institutionalization of these linkages were agreed on in the final inter-agency integrative meeting held on November 7. Thereafter, a MOA signing ceremony was scheduled. LTO Chief Berroya, BIR Commissioner Jose Mario Buñag, and Insurance Commissioner Evangeline Escobillo confirmed their participation, while the new leadership of LTFRB requested additional time to review the documents. The December 19 signing ceremony was thus postponed.

Last quarter's work pace and direction were considerably altered by new designations in two of the client agencies. Former LTO Chief and Assistant Secretary Anneli Lontoc was designated Undersecretary for Land Transportation at the Department of Transportation and Communication (DOTC); she was replaced by Retired General Reynaldo Berroya. Former LTFRB Chairman Maria Elena Bautista was designated Undersecretary for Maritime and Special Concerns; she was replaced by Retired General Thompson Lantion. LTFRB Executive Director Ronald Salunga was replaced by Atty. Emmanuel Mahipos.

Task 1.1.1.5c Insurance Commission Database

This task is an offshoot of the grant on the establishment of integrated systems of motor vehicle registration, land public transport franchising, insurance and taxation, which among others, recommended institutionalizing an LTO- IC linkage for the purpose of minimizing the incidence of bogus CTPL insurance policies. Because the IC does not have a database of insurance transactions and most of its process and operations are carried out manually, meaningful database reconciliation and exception reporting are difficult to achieve. The objective of this task was to design and legally enable a database and clearing system for all compulsory insurance transactions within IC, of which the CTPL is the most problematic. The other compulsory insurance types are general, maritime, public passenger accident, and environment-related. The immediate task is to focus on the CTPL insurance.

The main features of the desired database design are: (1) the inclusion of all compulsory insurance types, (2) immediate work on the CTPL database, (3) a linkage with LTO for the validation of insurance policies, (4) monthly database reconciliation and exception reporting among IC and other government agencies, and (5) use of the banking system for the receipt and distribution of payments.

At last quarter's end, a draft design of the compulsory insurance database and options for solving the problem on bogus CTPL coverage had been presented. IC Commissioner Evangeline Crisostomo-Escobillo approved the database system's high-level specifications, which will be used in the preparation of the bid documents/terms of reference (TOR) for bidding out the development and implementation of the system. The bidding was targeted to be carried by the end of January 2007.

Task 1.1.1.6 Assessing options for implementing the proof of payment provision in the tax code for excise taxes and updating/consolidating regulations on cigarettes

Expected Performance Milestone: *Acceptance by the BIR and DOF of an in-depth study's recommendation for implementing the proof of payment provision, and the required institutional changes, and updating and consolidating revenue regulations on cigarette excise tax.*

USAID approved this task on 12 Sep 2006. It has two tracks. The first track was to consist of an industry and systems study that will enable BIR to have a better understanding of the cigarette and tobacco industry and be in a position to select and implement the system of proof of payment that would be most cost-effective in terms of collecting the proper amount of excise tax on cigarettes and ensuring a level playing field for all industry players. The second track was to consist of reviewing, harmonizing, and codifying all issuances and regulations pertaining to excise tax on cigarettes and tobacco products. However, Assistant Commissioner Nestor Valeroso, the newly appointed head of the Large Taxpayer Service (LTS), wanted the study to give more attention to the manufacturing process (e.g., material input-output, material losses, and material conversion rates) and the critical manufacturing data, forms/reports, and information systems commonly used by cigarette manufacturers, instead of focusing only on the most cost-effective system of establishing proof of payment. The former could be immediately useful in strengthening the bureau's audit framework, while the latter could not be readily implemented as it requires capital outlay.

First Component: Industry and Systems Study. The Center for Operations Research and Management Science of De La Salle University (CORMS-DLSU) won the bidding for the first

track. Data gathering for the industry study and assessment of the industry's potential tax revenue and tax leakage was completed in close coordination with BIR counterparts ACIR Nestor Valeroso, head of the Large Taxpayers Service; Ms. Teresita Anegeles, Excise Tax Division Chief; and Ms. Lisa Pallejera, head of the BIR task force on improving compliance with the excise tax on cigarettes. A preliminary report containing an appraisal of the Philippine cigarette industry was submitted. The next step was to compare the trends and behavioral pattern discerned from the industry appraisal with the tax collection data of the BIR to make an assessment of the potential excise tax collection and/or tax leakages.

Second Component: Codification of Revenue Regulations and Issuances on the Cigarette and Tobacco Excise Tax. Mr. Dodie Item, head of the BIR task force for this component, noted that since the expertise on excise tax legal and administrative matters is already found within BIR, codification could be an in-house activity. In lieu of consultants for the codification work, he requested research assistance in the tedious preliminary task of collating and comparing the provisions of the various issuances.

Task 1.1.1.7 Designing a more effective tax compliance and verification drive (TCVD)

Expected Performance Milestone: *Issuance of revenue memorandum orders adopting project's recommended improvements on the TCVD process, enhanced MROS application, and better reporting and monitoring system of key performance indicators.*

The TOR for improving the Tax Compliance & Verification Drive (TCVD) Project was approved by USAID on May 17 and started on June 6, 2006. The project was to be implemented over a period of seven months, ending in December. A BIR counterpart project task force to work with the DLSU project team was formally created by a BIR Revenue Special Order. The task force members represent the BIR offices involved in TCVD, namely the Office of the Deputy Commissioner for Operations, Taxpayers Assistance Service, Information Systems Operations Service, Tax Reform Administration Group, and Revenue District Offices.

Among the activities that the project team embarked on to improve the TCVD are: (1) standardization of the tax mapping process for both manual and electronic mobile device (MROS-mobile revenue officers), (2) development and institution of TCVD performance indicators for revenue officers, revenue district offices, and revenue regions, (3) declaration of TCVD Taxpayers' Rights and Violations Checklist, (4) Revised Penalty system, (5) redesign of TCVD forms to lessen volume of unnecessary information, (6) creation of system architecture with web portal report generation to allow for automatic generation of report while conducting TCVD, (7) development of a prototype MROS application that can be run using the Blackberry device and ordinary cellular phones. The thrust of these activities is to streamline and standardize the tax mapping procedures, thereby improving their effectiveness and minimizing the incidence of corruption or abuse of taxpayers.

First Phase: Reengineering of TCVD Processes. A series of workshops with BIR counterparts in the office of DCIR for Operations Lilia Hefti, Tax Reform Administration Group (TRAG), Taxpayers Assistance Service (TAS), and revenue district offices, was conducted to consider improvements to TCVD procedures and its reporting systems. Agreements were made in the following features: (1) process flows in the planning, pre-TCVD, TCVD proper, and post-TCVD phases, (2) violation and penalty checklists, (3) tax information sheets for manual TCVD, and (4) forms such as violation ticket, pre-registration for unregistered taxpayers, and notices to

establishments. The documentation of the reengineered process was forwarded to Ms. Sally Marinduque, TAS Chief, for feedback. DCIR Hefti noted the need to revise the revenue memorandum order (RMO) governing TCVD to incorporate the agreements. A draft RMO was sent to her office for review and approval.

Second Phase: TCVD Automation (e-TCVD). The proposed system enhancements were presented to ISG, headed by Ms. Vicky de Leon. ISG made suggestions on zone naming, report generation procedures, database fields for payments through the banking system, synchronization of databases of the head and regional offices, software acceptance procedures, and minimizing conflicts between the electronic Integrated Tax System (e-ITS) and e-TCVD. The e-TCVD application subsequently passed systems and functional testing by ISG. Due to the busy year-end schedule of BIR staff, a one-month no-cost extension for this task was requested.

Task 1.1.1.8 Upgrading tax accounting practices of the BIR to International Financial Reporting Standards (IFRS)

Expected Performance Milestone: *Acceptance and training of BIR staff on IFRS-consistent tax accounting manual developed under the project, and issuance of relevant revenue regulations adopting the new system.*

SGV was contracted for the TA on upgrading tax accounting practices of BIR to IFRS. The task has two phases. The first phase was to consist of seven sessions, wherein SGV presents the draft training module templates for IFRS accounting principles and their tax implications to the BIR. The BIR counterpart team was then to come up with its final position on the tax matters identified, which was to be incorporated in training modules for the training of all BIR revenue officers and examiners.

Phase 1. Training of Key BIR Officials on IFRS. This phase was completed in November 2006. The original plan for 7 training sessions was stretched to 11 sessions, which were generally perceived to be engaging and productive. The training yielded plentiful insights and technical, legal, and operational considerations relevant to the eventual adoption of IFRS in the Philippines. An output of Phase 1 is the Summary of Tax Issues or tax implications of the IFRS and BIR's position on them, which will form part of the training modules.

Phase 2. Bureau-Wide Training. At the end of 2006 EMERGE consultants were awaiting BIR's resolution of the Summary of Tax Issues. This will input into the training modules to be pilot-tested on selected examiners and later used for the bureau-wide training of examiners. Because of the extension of time needed to complete Phase 1 and the busy December schedule of BIR, a no-cost extension for this task was being proposed.

Reform Result 1.1.2. Sustained increase in tax collection

Task 1.1.2.1a Individual Performance Management System at the BIR Installed (In the Large Taxpayer Service (LTS))

This task was completed in November 2005.

Performance Milestone Achieved: *BIR accepted and is implementing the individual performance management, rating and incentive allocation system (PMS), designed by EMERGE consultants for the LTS, starting in 2005. Individual PMS reflects performance more closely than the usual Civil Service*

Commission (CSC) Personnel Evaluation System (PES). BIR will write to CSC Chairman David to formally adopt PMS as its personnel evaluation system. PMS sets office and individual financial and non-financial performance targets, evaluates actual against performance contractual obligations, and rates the performance.

Task 1.1.2.1b Individual Performance Management System at the BIR Installed (Attrition Act IRR Drafted)

This task was completed in June 2005.

Performance Milestone Achieved: EMERGE completed a first draft of the IRR of the Performance Attrition Act for DOF Undersecretary Emmanuel Bonoan. After internal and inter-agency review and re-drafting, DOF Secretary Margarito Teves signed the final draft IRR, signed by 6 department and agency heads, and transmitted it to the Congressional Oversight Committee for approval. It was finally released on 5/30/06.

Task 1.1.2.2a Installing Office-Level Performance Management System (PMS) at the BIR Regional Offices

Performance Milestone Achieved: Assistant Commissioner for Internal Revenue (ACIR) Marietta Lorenzo expressed her approval of the PMS and accepted it for the Policy and Planning Service (PPS), in the role of PMS process owner.

The TOR for the “first wave” of this task was approved by USAID on March 20, 2006. It was to be completed before the end of June, but this was extended to the end of August due to scheduling decisions by BIR. The deliverables of the first wave were (a) a strategy map, (b) initial office templates for RDOs and RRs, (c) draft PMS guidebook, (d) initial version of the Performance Management Information System (PMIS) for RDOs and RRs, specifically the target-setting and evaluation modules, and (e) an enhanced PMIS for the Large Taxpayers Service (LTS), which will incorporate the rewards framework. These outputs were developed in full consultation with the management and staff of BIR.

The EMERGE team mapped the second wave for PMS. Its components are (a) PMS for all the major offices of BIR, (b) an interim system for the implementation of the Lateral Attrition Act of 2006, (c) a communication/change management plan, (d) outcome metrics for evaluation, (e) a PMIS aligned for the Large Taxpayers’ Service (the pilot unit), RRs, and RDOs, and (f) a rewards framework. ACIR Lorenzo was also tapped for her inputs to the second wave.

The EMERGE-PMS project team completed and submitted the required deliverables for the “first wave” of the task on July 30. The “second wave” was approved by USAID on 18 Aug 06 and started in September with a series of meetings with MANCOM and other major stakeholders. Since there was not enough time for the development of an individual-level PMS to support the implementation of the Attrition Law, which officially commenced with the promulgation of the Implementing Rules and Regulations in May 30, 2006, a hybrid of an office-level PMS and the pre-Attrition Law individual performance evaluation system (PES) will be used.

Task 1.1.2.2b Installing Office-Level Performance Management System (PMS) at the BIR Regional Offices

Office PMS and PMIS. The preparation of performance contracts as part of the establishment of PMS at the office level was undertaken in close coordination with the Policy and Planning Service (PPS). Baseline information gathered in-house was used to draft performance contracts with clear and measurable indicators. The draft contracts were used for trial evaluations and the outcomes, in turn, were used to test the soundness of the instrument. Findings from these simulations and feedback from the BIR management committee were used to refine the

performance contracts. At last quarter's end, performance contracts for 15 offices have been developed, leaving only two offices without draft contracts.

System development for the PMIS was proceeding in collaboration with the Information System Group (ISG). The application was installed in BIR computers for the encoding of draft performance contracts.

Task 1.1.2.3 Designing a system for rationally allocating the annual revenue targets of the Bureau of Internal Revenue to its district, officials and employees

Inherent in the Lateral Attrition Law is the assumption of the presence and acceptance of rationally allocated goals across RDOs and individuals. The main PMS task covers only office performance measurement, evaluation and rewards and does not directly address attrition. A system for revenue goal allocation at the RDO and individual levels would therefore have to be designed to address the required attrition process directly.

After preliminary work with PPS officials, namely, ACIR Marietta Lorenzo, Head Revenue Executive Assistant (HREA) Elvie Vera, and Statistics Division Chief Cynthia Santos, terms of reference were prepared. Subsequently, EMERGE received a formal request from BIR Commissioner Buñag on December 17, 2006, for TA on the development of a rational system for goal allocation. A request for approval was to be sent to USAID early in the next quarter.

Reform Objective 1.2 Raise the efficiency of public spending

Reform Result 1.2.1. Government bureaucracy more cost effective

Task 1.2.1.1 Improving Agencies' Re-structuring Plans under EO 366

Expected Performance Milestone: DBM and CSC will improve the restructuring plans of the various Departments and their attached agencies, with TA from DAP funded by EMERGE to assist in the reviews, and will submit these to the President for approval.

The preparations of all agency restructuring plans follow a uniform sequence of activities: briefings on Executive Order 366 (Directing a Strategic Review of the Operations and Organizations of the Executive Branch), submission and discussion of Sector/Sub-Sector Profiles by sector experts, consideration of the Agency Rationalization Plan by the Department of Budget and Management (DBM) Composite Team, DBM Undersecretary Laura Pascua, and presentation of the evaluated Agency Rationalization Plan to the Executive Committee consisting of DBM Secretary Rolando Andaya and Civil Service Commissioner Karina David.

The original deadline for the submission of agency rationalization plans to the Department of Budget and Management (DBM) was November 2005. However, to manage the resistance against the agency rationalization from certain sectors, the DBM opted not to enforce this deadline. As of December 27, 2006, the status of submissions of agency rationalization plans was as follows:

STATUS	DEPARTMENTS	OTHER EXECUTIVE OFFICES / AGENCIES	GOCCs	TOTAL	
				NO.	%
A. Plans Submitted to DBM	18	27	33	78	70%
B. Plans not yet Submitted	3	2	29	34	30%
TOTAL	21	29	62	112	100%

Of the 78 plans submitted, only 12 had been approved by the end of 2006. The delays in the submission of agency rationalization plans affected the delivery of EMERGE TA, which consisted of preparing sector studies and attending meetings with agency change management teams, DBM, and the program executive committee to tackle the effects of policy directions on agency structure and clarify agency and component unit functions, staffing patterns vis-à-vis the Organization and Staffing Pattern Guidelines.

Reform Result 1.2.2. Public expenditure management improved

Task 1.2.2.1 Institutionalizing a capacity at DBM to prepare a budget strategy paper and use it in planning the budget

DBM completed the draft of its first budget strategy paper (BSP) and wished to acquire more training to improve their capability in this area. DBM Undersecretary Pascua requested training for DBM personnel on program assessment and evaluation for the purpose of preparing an annual Budget Strategy Paper (BSP), which is seen as a potent tool for ensuring the effectiveness and sustainability of development projects. Subsequently, however, this task was set aside due to the decision by USAID to reduce the EMERGE budget.

Task 1.2.2.2 Exploring the feasibility of adapting the Performance Assessment Rating Tool of the OMB/USG to the Philippines

Expected Performance Milestone: *DBM and other concerned government agencies will appreciate PART and consider adapting it in conjunction with other public expenditure management reforms.*

DBM Undersecretary (Usec) Laura Pascua requested EMERGE to provide a U.S. consultant to help the DBM learn about the Performance Assessment and Review Tool (PART) used by the US Government Office of Management and Budget (OMB) to assess the performance of government units. The TOR for this TA was drafted in April 2005, but it was postponed at the request of Usec Pascua because the DBM staff was busy with budget preparation and the government restructuring program, although she eventually expressed her approval. The task was to bring a staff member of the U.S. Office of Management and the Budget (OMB) or a private consultant knowledgeable about PART to the Philippines to conduct orientation seminars and consultation meetings with officials and technical staff of the different government agencies. This consultant is also to conduct an assessment of the feasibility of adopting PART in conjunction with the different public expenditure management reform initiatives of the Philippine government. EMERGE received a formal letter from Usec Pascua dated 27 Jun 06 requesting this TA. The best time for the 13-day visit of the consultant was determined to be March 2007. DBM reviewed the curriculum vitae of several prospective consultants provided by

CARANA Corp. At last quarter's end, Mr. John Pfeiffer, a senior OMB staff member, was deemed to be most suitable person available for the task given his background and experience.

Task 1.2.2.3a Working Model to Predict Cash Inflows Installed at DBM

Performance Milestones Achieved: 1) *The EMERGE consultant helped DBM draft the Fiscal Responsibility Bill (FRB) by providing background information and analysis on the appropriateness of instituting a debt cap to the core group tasked with the drafting it. He recommended the use of a methodology to compute the debt cap based on the IMF fiscal stress test model of debt sustainability. This was adopted by the group and written into the FRB working draft that was subsequently submitted to the Senate Finance Committee. The FRB is filed in the House (HB 3890) and Senate (SB1968) and is at the Committee levels.*

2) *The consultant introduced a methodology for forecasting revenues collected by the BIR and the Bureau of Customs (BOC). DBM Undersecretary Pascua accepted the methodology and requested EMERGE to train her staff in the use of the model.*

The EMERGE team hired Mr. Jem Armovit to work on a model to predict cash inflows for DBM. It is needed to allow DBM to issue notices of cash allotments quarterly instead of - monthly. His engagement was completed in September 2005. It introduced a methodology for forecasting revenues collected by the BIR and the Bureau of Customs (BOC), together making up about 99% of tax revenues and about 87% of total national government revenues. DBM Usec Laura Pascua subsequently requested EMERGE to train selected staff of DBM on how to use the model to help DBM reduce the government's risk of spending beyond its actual revenues. In 2002, the projections of DOF and the Bureau of the Treasury (BTr) were substantially off and this resulted in a build-up of cash payables. The statistical model EMERGE developed would not be the only basis for decision-making. It would be used to produce DBM inputs into an inter-agency cash programming exercise. Usec Pascua also asked that the purchase of EViews™ software be part of the task, but she withheld a formal request for the training pending consultation with the Fiscal Planning Bureau, since bureau and department work was focused on the 2007 Budget deliberations in Congress.

Task 1.2.2.3b Working Model to Predict Cash Inflows Installed at DBM

Undersecretary Pascua expressed a preference for the training on the revenue forecasting developed by Mr. Jem Armovit to be undertaken in conjunction with training on expenditure incidence analysis. After consultations with DBM officials, she informed EMERGE that DBM could finance the training with what remains of Mr. Armovit's consulting time from another donor. In lieu of training support, she requested the purchase of the EViews software needed to run the model. The request for USAID approval was being prepared at the end of 2006.

Task 1.2.2.4 Institutionalizing DBM's capability to publish timely information on its website on appropriations and budget releases of infrastructure and development projects of legislators

Expected Performance Milestone: *DBM will be able to streamline and automate the preparation of Special Allotment Release Orders (SARO) and Notices of Cash Allocations (NCAs) for capital projects and allocations to local government units covered by lump-sum appropriations and install a system for generating, processing and reporting budget releases and tracking expenditure of lump-sum appropriations.*

EMERGE prepared a SOW for this task at the urgent request of former DBM Secretary Romulo Neri and based on information provided by Ms. Mariliza Reyes, consultant to DBM Secretary

Neri, the head of the Legal Service of DBM and the acting head of the DBM's BISS. Usec Relampagos said the TA should help the DBM streamline the process of generating, processing, and releasing of information prior to public dissemination in general and publication in the website in particular. The website could be integral to promoting budget transparency and accountability; however, sans generation and processing of quality budgetary data prior to publication, these goals could not be supported by the website. Usec Relampagos was to be the agency counterpart.

It was agreed that TA should address the following needs: (a) streamlined and automated preparation of the special allotment release order (SARO) and the notice of cash allocation (NCA), (b) a database design that supports the generation of reports required by clients and automatically uploaded to the web, and (c) an expenditure tracking mechanism for infrastructure projects. A related need is an incentive mechanism for line agencies to release required data to support monitoring activities. EMERGE received a second formal request signed on behalf of DBM Secretary Andaya for this task. With the assistance of Assistant Secretary (Asec) Mariliza Reyes and other DBM officials, EMERGE undertook bidding procedures and selected Asiagate, Inc. Subsequently, the TOR was revised to incorporate USAID's suggestion for consultation with TAN and CODE-NGO and reporting on the lump-sum allocations of representatives and senators.

This task was formally launched on October 25 and dubbed as "eLAMP" (electronic Lump-Sum Appropriations Management Program) by Asec Reyes and representatives from the Budget Information Systems Service (BISS), Technical Information Service (TIS), and Regional Operations Coordination Service (ROCS). The deliverables are: (1) an automated system for the processing and releasing of selected lump-sum appropriations including a database and tracking system of their releases and expenditures, and (2) a website equipped with a content management system (CMS) to display the information in the database in a timely and accurate manner. The lump-sum appropriations covered are the Internal Revenue Allotment (IRA), Priority Development Assistance Fund (PDAF), and the Department of Public Works and Highways (DPWH) lump-sum budget.

Concerns of confidentiality and ownership were raised, in part due to recent discovery of the proliferation of fraudulent budget documents that have victimized local chief executives, suppliers, and other entities doing business with government. EMERGE consultants consented to a non-disclosure agreement.

The initial systems audit phase consisted of field interviews, ocular visits to offices, and an FGD with selected non-government organizations (NGOs). The objective of the FGD was to identify the NGOs' information requirements for involvement in the monitoring of releases and expenditures of lump-sum appropriations. The output of the audit phase was a diagnostic report, which was completed in collaboration with DBM counterparts. At the end of the last quarter systems design was underway. System requirements specifications (SRS) were being drawn up and will be signed off by agency counterparts before being incorporated in the functional design.

Task 1.2.2.5 Improving the public expenditure management system

With the selection and approval of a new team leader for the Fiscal Sustainability theme, a short term consultant for this task is no longer needed.

Reform Result 1.2.3. Procurement reform implemented

Task 1.2.3.1a Customized Agency Manuals and Generic Procurement Manuals Aligned

This task was completed in July 2005.

Performance Milestone Achieved: EMERGE completed a matrix of inconsistent text in procurement manuals with that in bidding documents, and misaligned provisions in either the manuals or the bidding documents with the law. This document is now used by the Technical Support Office of the GPPB to correct the inconsistency or misalignment and to develop procurement case situations, highlighting the application of the law and its IRR, with World Bank support.

Task 1.2.3.1b Customized Agency Manuals and Generic Procurement Manuals Aligned (Training Component)

This task was completed in October 2005.

Performance Milestone Achieved: A training program on procurement reform for the Office of the Government Corporate Counsel was completed in October 2005. A total of 200 legal staff members of the OGCC and GOCCs were trained on government procurement reforms. In December 2005, during the 75th anniversary celebration of the OGCC, Justice Agnes Devanadera cited EMERGE for this assistance with a plaque of appreciation in a program held at the Cultural Center of the Philippines.

Expanded Trade and Investment-- Specific Tasks

Reform Objective 2.1 Lower trade barriers and facilitate trade

Reform Result 2.1.1. Tariff restrictions and non-tariff barriers (NTBs) reduced

Task 2.1.1.1 Assessment of the economic impact of trade liberalization

This task responds to a request from Commissioner Edgardo Abon, Chairman of the Tariff Commission, to assess the economic impact of the tariff reform program and the country's participation in regional trade agreements. The Commissioner has been often asked by stakeholders, during tariff hearings, about the impact of the country's trade liberalization program, and there is continual pressure to increase tariff protection and roll back other trade reforms. EMERGE started work on developing the TOR for this task in coordination with some of the officials of the Philippine Tariff Commission. The proposed TOR was supposed to be an ex-post assessment of trade liberalization in the country to complement the ex-ante assessment of the tariff reforms using a general equilibrium model of the Philippines, which was done for the Commission by the John Curtin Institute of Public Policy. However, further activities on this task were put on hold in May 2006, given the USAID reduction of the EMERGE budget. Discussions were resumed in August after EMERGE analysis indicated that effective rates of protection have not actually been falling as previously believed, but rather that there has been a steady stream of tariff increases over the last few years. A meeting of EMERGE, USAID and GTZ on Sept 19 considered how best to respond to the Tariff Commission's TA request. The group agreed to have a donors' roundtable discussion with academe and researchers to define the questions to be addressed by an impact study and possible methodologies to be used. EMERGE participated in two subsequent roundtable discussions with the academe organized by GTZ on October 23 and December 13. The discussions in these meetings were placed in the context of the TA request of Tariff Commission Chairman Edgardo Abon for EMERGE to assess the impact of the country's trade liberalization program. In these meetings, the appropriate issues to

be addressed by the impact assessment and the methodology to use were identified. On the latter, the use of industry studies over CGE models was agreed upon. To ensure comparability of results across industries, it was agreed that the core methodology of the industry studies should be developed first, prior to conducting the studies themselves.

In the next quarter, EMERGE planned to (i) develop the TOR for developing the methodology for the industry studies, (ii) seek USAID approval of the TOR, and (iii) work with an EMERGE consultant to implement it.

Reform Result 2.1.2. Trade-related transactions costs reduced

Task 2.1.2.1 Customs Post Entry Audit Group (PEAG)

This task was completed in February 2005.

Performance Milestone Achieved: *The consultant team completed its work in February 2005 and shared it and their recommendations with the then Commissioner of Customs, Bert Lina, who appreciated the report and asked EMERGE to help his office implement its recommendations. After the resignation of Lina, in July 2006, implementation of the recommendations was put on hold by then Acting Commissioner Alexander Arevalo. The current Commissioner Napoleon Morales has been briefed about this work and has also requested EMERGE assistance to help implement its recommendations.*

Task 2.1.2.2 Customs Risk Management System Improved

The purchase order (PO) for this task was closed at the end of March, following the decision and agreement made during the November 10 meeting of USAID, EMERGE and CEPR to close it after the completion of the 3rd tranche deliverables for the reasons explained in earlier reports.

Task 2.1.2.3 Analysis of the Revised Kyoto Convention (RKC) as input to the preparation of a national strategy paper on Philippine compliance with the Convention

Expected Performance Milestone: *A GRP national strategy paper and work plan on how the Philippines can comply with the RKC.*

Performance Milestone Achieved: *The National Competitiveness Summit adopted the recommendation of the RKC study for Congress to work on the immediate accession of the country to the RKC. The Summit, which was held October 6, 2006, was attended by President Gloria Macapagal-Arroyo, and a National Competitiveness Council was created to monitor the implementation of the action plan it adopted.*

The TOR for this task was approved by the USAID in May 2006. EMERGE met with the Parayno Consulting Inc., the vendor for the purchase order (PO), and discussed the terms of the PO. Implementation was expected to be completed by August 2006, but the Parayno team requested a no-cost extension because of the delayed completion of the private sector's and BOC's own analyses of the RKC, which the team had to incorporate in its final report. During the fourth quarter of 2006, the Parayno Consultancy Services completed the gap analysis on the standards and transitory standards of the General Annex and Specific Annex of the RKC. The team also held separate meetings and presentations of their draft reports to the PhilExport Board, Export Development Council (EDC) Executive Committee and the Bureau of Customs (BOC)-RKC Management Committee. The objectives of the presentations were (i) to get feedback and comments on the initial draft reports and (ii) build consensus with all concerned stakeholders on the national strategy on the country's accession to the RKC.

The draft reports were uploaded to the project's website: www.rkc.phil.net for easy access by all stakeholders and for their comments. The Bureau of Customs was not able to submit its comments before the end of the year, however, causing the team to request another no cost extension until February 2007. This task was expected to be completed in the next quarter.

Task 2.1.2.4 Technical Assistance to the Bureau of Customs

Task 2.1.2.4(a). Conduct Orientation/Workshop on Performance Management System

This TA activity was completed in September 2006. Customs Commissioner Napoleon Morales asked EMERGE to provide the BOC's Lateral Attrition Implementation Committee an orientation about the Performance Management System (PMS). The Committee needed this overview in its effort to formulate the Bureau's PMS. The BOC needed a plan to adequately and effectively implement the Lateral Attrition Law and submit this plan to the Revenue Performance Evaluation Board, which DOF Undersecretary Gaudencio Mendoza chairs. EMERGE was asked to provide the Committee and selected officials of the BOC an orientation of the PMS and help them come up with their own system of measuring, monitoring, rating, and rewarding good performance.

Task 2.1.2.4 (b). Enhance the capacity of the Post-entry Audit Group (PEAG) to customs audits

Expected Performance Milestone: *EMERGE work under this task is expected to lead to the issuance of Customs Administrative Order(s) and Memorandum Order(s) enabling improved guidance to importers on how to comply with record keeping and custom audit procedures, selection criteria for auditees, and a voluntary disclosure program, PEAG staff enhances its competence in undertaking risk management, risk profiling, selection of auditees, preparation of the audit plan, execution of audits, and preparation of audit reports in accordance with international best practices. Better coordination between the PEAG and other units of the Bureau in undertaking its audit function is expected.*

This task aims at developing the business procedures of PEAG staff in selecting in a transparent manner the auditees, formulating the audit plan, conducting field audits, and undertaking post-audit work. Besides streamlining, and drafting manuals of, these procedures, the EMERGE team was asked to review the current legal framework of PEAG and update the customs orders to legally enable the reforms, including the a voluntary disclosure program. The PEAG officer-in-charge, Atty. Ligon, needed information from the US Customs and Border Protection on its customs rulings, particularly those related to audit, as inputs in formulating the Group's position on requests of importers for guidance regarding customs audits.

EMERGE initiated work under this task in January 2007 and expects to complete it in June 2007.

Task 2.1.2.4(c) Institutionalizing PMS at the Bureau of Customs

In a meeting with the BOC staff, headed by Atty. Rey Umali, EMERGE finalized the scope of work (SOW) for the proposed TA to the Bureau institutionalizing its PMS. While Director Umali desired a full range of TA activities like those EMERGE provides to the BIR, the SOW was limited to developing the appropriate legal framework for measuring performance based on collections alone and for the implementation of the rewards and attrition provisions in the Lateral Attrition Law. There was a sense of urgency for this capability because the Bureau, or at least the Batangas collection district, was expected to exceed its revenue collection target for 2006.

During the next quarter, with USAID approval, EMERGE expected to start the above TA activities.

Task 2.1.2.4(d) Modernizing the Customs Code

Expected Performance Milestone: *The Bureau of Customs submits a bill to the in-coming Fourteenth Congress re-codifying customs related laws, simplifying and harmonizing these with international customs administrative practices as defined by the 1999 RKC protocols, while at the same time adapting these protocols to Philippine conditions and ensuring the internal consistency of the customs code.*

The Commissioner requested EMERGE to assist the BOC in codifying customs related laws. Since its codification in 1978, the current customs code has not been altered in a way that incorporates the major innovations in customs administration. Yet there has been major shifts thinking and practice in this area. Among the most important are the transaction valuation and the worldwide focus on harmonization of customs procedures in order to reduce transactions cost. There are provisions in the customs code which are no longer consistent with best practices, and thus internal consistency of the code needs to be assessed and ensured. The experiences of the Bureau in implementing customs administration reforms, particularly in transaction valuation, customs audits, SGL and liquidation and billing, the technological innovations in customs administration brought about primarily by new information and communication technology (ICT), the advent of e-commerce, and other trade facilitation reforms – all these developments have reached such a critical mass as to compel their codification to produce a *modern customs code* that is consistent with the 1999 RKC protocols.

In the next quarter, the terms of reference for this activity will be written and, with USAID approval, EMERGE will start work in this area.

Reform Result 2.1.3. Administration of SPS measures streamlined

Task 2.1.3.1a Improvement of the Department of Agriculture's SPS administration systems

Phase 1 of this task was completed by the end of the last quarter.

Performance Milestone Achieved: *A significant performance milestone for this TA was the adoption by DA of one of the recommendations by the diagnostic study team—to reorganize the SPS administration under two agencies—in its rationalization plan pursuant to EO 366. One agency will be for standards setting and the other for enforcing regulations.*

Expected Performance Milestone: *DA adopting streamlined and harmonized SPS business procedures developed by this task.*

Task 2.1.3.1b Improvement of the Department of Agriculture's SPS administration systems

Performance Milestone Achieved: *On December 19, 2006, Finance Secretary Margarito Teves and Agriculture Secretary Arthur Yap signed their Memorandum of Understanding to create a technical working group to design and conduct a pilot implementation of the national single window for the cargo clearance of regulated imported agricultural products.*

DA Usec Fred Serrano requested additional EMERGE TA (i) to prepare and implement a plan of action to institutionalize the two regulatory organizations, which is planned to take effect in

2008; and (ii) to streamline and harmonize SPS business procedures. This second phase of the TA is important to producing actual results on improved SPS administration.

The TA has 5 major activities, namely: (i) development of an SPS policy statement; (ii) development of interim organizing arrangements leading to the dual agency SPS administration, one for standards setting and development and the other for enforcement; (iii) streamlining business procedures for enforcing SPS measures; (iv) development of operating manuals for the streamlined business procedure; and (v) development of systems architecture on processes. The TOR for this task was approved by USAID in July 2006, with the Caesar Virata Associates Inc. (CVAI), Inc. as vendor. It was expected to be completed in March 2007. EMERGE also discussed with Usec Segfredo Serrano the proposal of Deputy Customs Commissioner Arevalo to pilot the National Single Window program with the DA and the Bureau of Customs on enforcement of the DA SPS regulations at the border. Serrano welcomed the proposal.

The CVAI consultant team started work first week of August. A Technical Committee (TC), created through a Special Order issued by DA Secretary Panganiban, was tasked to work with the team to complete the deliverables. The TC is composed of six DA regulatory agencies: Bureaus of Plant Industry (BPI), Animal Industry (BAI), and Agriculture and Fisheries Products Standards (BAFPS), National Meat Inspections Service (NMIS), Fisheries and Aquatic Resources (BFAR) and the Fertilizer and Pesticide Authority (FPA).

During the last quarter, the CVAI consultant team completed draft reports on the following: (i) SPS policy statement; (ii) architecture of border processes; (iii) interim organizational arrangements for the dual agency SPS administration; (iv) streamlined business procedures (for import clearance/permit; import inspection; licensing, registration and accreditation; and import inspection of wood packaging materials); and (iv) export processes.

Piggybacked to TA activity for improvements in SPS administration is the national single window (NSW) pilot implementation. EMERGE has worked with Deputy Commissioner Alex Arevalo of the Bureau of Customs and DA officials to get the work on NSW going. This will be the first NSW in the country after President Arroyo issued EO 482 in December 2005. The pilot implementation of the NSW between DA and BOC is a commitment the DA and BOC made in the National Competitiveness Summit.

This task was expected to be completed by the end of March 2007. Reports to be completed are: (i) the final draft of the SPS streamlined business procedures; (ii) operating manuals of the streamlined SPS business procedures; and (ii) an integrative report.

Task 2.1.3.1(c) Conducting and Orientation/Workshop on the National Single Window (NSW)

Expected Performance Milestone: *The National Single Window Technical and Steering Committees will be organized and will supervise the work towards completing the National Single Window by 2007. This achievement in turn is required for setting up the ASEAN Single Window for the six major members in 2008.*

The Department of Agriculture and the BOC are designing a pilot national single window (NSW) involving agricultural imports requiring sanitary and phytosanitary (SPS) standards. This joint undertaking is facilitated by the on-going work by the DA aimed at reengineering its business processes and improving its organizational set up for SPS administration, which EMERGE is helping the DA undertake (see Task 2.1.3.1(a) and (b)).

BOC Deputy Commissioner Alexander Arevalo, who is concurrently the head of the ASEAN Single Window Steering Committee as well as that of the Philippines NSW, asked EMERGE to help him undertake an orientation/workshop on the NSW in June 2007. The participants will include the representatives of trade-related regulatory agencies such as those under the Departments of Agriculture, Trade and Industry, and Health. In that workshop, the pilot NSW between BOC and DA will be showcased. The orientation/workshop will be followed by the convening of the Technical and Steering Committees of the NSW as provided for by EO 482.

Reform Result 2.1.4. Compliance with product technical regulations & standards increased and cost of compliance reduced

Task 2.1.4.1 Development and establishment of a standards and conformance (S&C) portal

Performance Milestone Achieved: *The approval and acceptance by BPS and the S&C Portal Project Steering Committee, in a meeting on Dec 18, 2006, of the outputs of Phase 1, the specification of the systems and functionalities of the portal.*

Expected Performance Milestone: *A functioning standards & conformance portal providing foreign technical regulations & product standards information critical to Philippine export producers*

This task is in response to the joint request of Dir. Jesus Mottomull of the Bureau of Products and Standards (BPS), the Export Development Council (EDC), PhilExport, and the Philippine Chamber of Commerce and Industry (PCCI). The portal is to be a web-based facility that will host the technical regulations and product standards of the Philippines and other WTO member countries to improve the access of Philippine exporters to the global market by increasing their compliance with these requirements. Similarly, by complying with Philippine standards and regulations, the country's importers will be assured entry for their imported products and thereby reduce their business transaction costs. The implementation of the TA is planned for three phases: Phase 1- specification of the functional and system design of the S&C portal; Phase 2- development and establishment of the portal; Phase 3- institutional arrangements to sustain and enhance it.

In June, the BPS started work on securing the funding for the hardware component of the portal. Dir. Jesus Mottomull wrote the EDC to assist the BPS with funding support from the BSP Export Promotion Fund. The PO for Phase 1 of this task was approved by USAID in August, with Oliver Malabanan from the College of Computer Sciences, De La Salle University, as the vendor. One of the documents submitted to USAID was the letter from the Export Development Council (EDC) expressing funding support for the hardware component of the portal, through the Export Promotion Fund of the Bangko Sentral ng Pilipinas (BSP)

Oliver Malabanan, EMERGE consultant for Phase 1, finalized the design and specifications of the portal, with a clear delineation of the functionalities to be provided separately by EMERGE and ECA-EU. The design and specifications were then approved and accepted by the BPS and the S&C Portal Project Steering Committee in a meeting on Dec 18. This completed Phase 1 of the EMERGE TA. Phase II is expected to start in the next quarter.

Reform Result 2.1.5. Trade-related institutional capacities strengthened

Task 2.1.5.1 Philippine Global Trade e-Learning Program (PGTEP)

Performance Milestone Achieved: *The successful completion of PGTEP in December 2006, with 400+ participants being equipped with better knowledge of global trade, WTO agreements, the Doha Round, and other bilateral/regional trade agreements.*

This TA to the DTI aimed to improve the capacity of government and civil society to understand and participate in international trade discussions and negotiations.

Overall, PGTEP enrolled a total of 665 elearners. Of this number, 174 participants were delisted or remained inactive. Thus 491 were considered “active enrollees.” The Program required participants to complete the requirements of all 8 courses. As of December 15, 2006, 125 participants completed Courses 1 to 8. The rest were catching up with the program extension given until 30 January 2007.

Status of Completion	Number of	
Status	Participants	
Completed all 8 courses	125	The IATP Secretariat is confident that those who have completed at least 5 courses will complete the Program on or before the deadline. In addition, 56 PhilJA participants have also completed an abridged Global Trade program.
Completed 7 courses	57	
Completed 6 courses	37	
Completed 5 courses	40	
Completed 4 courses	11	
Completed 3 courses	22	
Completed 2 courses	56	The IATP Secretariat is expected to submit to EMERGE its terminal report and evaluation of the program in February 2007.
Completed 1 course	60	
Total	408	

Reform Objective 2.2 Liberalize and Facilitate Investments

Reform Result 2.2.1 Agriculture biotechnology safely and responsibly used

Task 2.2.1.1 Field Testing Protocols for Transgenic Crops and Principles Underlying the Regulation of GMO-Containing Processed Foods Developed

This task was completed during the first quarter of 2005.

Performance Milestones Achieved: *1) With EMERGE TA, BFAD drafted guidelines on the labeling of GMO-containing processed food that have been endorsed for the approval of the Executive Committee of the Department of Health (DOH). The draft guidelines were sent to the DOH division chief in charge of policy. While there are no pending issues on the technical substance of the guidelines, the division chief wants further consultations on them. Once approved by DOH and/or BFAD, the guidelines will lay down the commercialization and labeling guidelines for processed food derived from biotechnology.*

During the last three quarters of 2005, the draft Bureau of Food and Drugs (BFAD) guidelines on the labeling of processed foods containing GMOs were languishing under review by the Policy Division of the Department of Health (DOH) for final approval. BFAD Director Leticia Gutierrez ordered the technical and legal review of the proposed guidelines on the labeling of processed foods containing GMOs for the purpose of issuing them in the form of a BFAD circular. However, BFAD lawyers recommended that, in light of the EO 514 on the national biosafety framework, which President Arroyo issued on March 17, 2006, BFAD should

coordinate with the National Committee on Biosafety of the Philippines (NCBP) on biosafety matters such as the proposed guidelines. BFAD published on its website the proposed guidelines to solicit comments from the general public, and it subsequently approved the final draft of the Administrative Order (AO) on the Rules and Regulations on the Registration and Labeling of Processed Foods Derived from Modern Biotechnology, which was drafted in consultation with the stakeholders. The draft was forwarded to DOH, which is a member of the NCBP, for review, approval and signature by the Hon. Secretary of Health Francisco T. Duque. The Secretary of Health was expected to issue an Administrative Order enabling the guidelines. BFAD did not receive any objections from the stakeholders to the labeling guidelines after posting them on its website in June 2006. BFAD Director Leticia Gutierrez endorsed the guidelines to the DOH Secretary for his consideration and issuance as a DOH Administrative Order.

On December 20, 2006, Dr. Oscar Gutierrez from BFAD briefed DOH Undersecretary Alex Padilla, who is in charge of policy and regulatory matters, on the labeling guidelines in an effort to follow up on the proposed DOH Administrative Order (AO). Representatives from the Biotechnology Coalition of the Philippines, headed by its new President, Dr. Nina Barzaga, were also at the meeting. Usec. Padilla informed those in the briefing he has not heard any objection to the proposed AO, and he would be happy to endorse it for signing by the DOH Secretary when the policy group transmits the document to his office. A meeting was planned on this matter in January 2007 between the head of the policy group and Usec. Padilla.

Task 2.2.1.2 Formulation of Insect Resistance Management (IRM) Strategy and development of regulatory protocols

This task was completed in May 2006. ISAAA submitted their last set of deliverables for this PO. These include: (i) Draft DA guidelines and protocols on the safe conduct of field tests of plans derived from the use of modern biotechnology; (ii) Draft BFAD guidelines on substantial equivalence in risk assessment to determine the safety of GM foods; and (iii) Draft BFAD rules and regulations on the establishment of an identity preservation system for monitoring and verification of labels on processed food derived from modern biotechnology, including evaluation thereof for export certification. In drafting these guidelines and protocols, ISAAA assisted the DA/BFAD hold consultations with stakeholders, both at the national and local levels. At the end of the last quarter the rules and regulations on identity preservation were still with BFAD for review.

Performance Milestones Achieved: 1) ISAAA submitted the results of a nationwide survey on the acceptability of the 80-20 bag-in-a-bag insect resistance management (IRM) strategy for Bt corn, conducted by the consultant team and DA. DA used survey findings to update and strengthen science-based IRM for Bt corn, as contained in Memorandum Circular (MC) No.8, dated 14 Dec 05 and signed by DA Secretary Domingo Panganiban. To implement the MC, Special Order No.7 was issued on 3 Jan 06, creating the Insect Resistance Management Advisory Team (IRMAT), which will serve as the DA scientific and technical advisory body on IRM matters.

2) On 8 March 2006, Sec Panganiban issued MC No.1 Series of 2006, updating the insect resistance management monitoring procedural guidelines and reporting formats to be used this Bt corn planting season by industry technology developers.

Both MC No 8 Series of 2005 and MC No. 1 Series of 2006 used as inputs the results of the nationwide survey on the feasibility/acceptability of the 80-20 Bag-in-bag IRM strategy for BT corn. EMERGE helped support the survey, and these are significant performance milestones for this TA.

3) Memorandum Circular No. 02, series of 2006, was issued by the Secretary of the Department of Agriculture (DA), which sets the guidelines for field testing plants derived from modern biotechnology. Before this the DA used as its interim protocols those of the National Committee on Biosafety of the Philippines (NCBP). This will provide a more coherent policy framework for bio-safety assessments and field testing protocols.

4) The protocol on substantial equivalence has been incorporated in the latest draft BFAD guidelines on GM food labeling. In the form of a Department of Health (DOH) Administrative Order, the draft guidelines were posted in the BFAD website on 27 June 2006 for public comments prior endorsement to the DOH Secretary for his consideration.

5) The rules and regulations on identity preservation are in the form of a draft Memorandum Circular that has been subjected to a series of technical discussions among concerned institutions. It will be revisited by BFAD once the draft DOH Administrative Order on GM food labeling has been issued.

EMERGE will continue to monitor actions either by the DOH Secretary or by BFAD on the implementing rules and regulations of the labeling guidelines.

Task 2.2.1.3 Institutional capacity building and information, education and communication (IEC) campaign on modern biotechnology

This TA was completed in July 2006.

Performance Milestones Achieved: A major accomplishment so far of this TA was the signing on June 16, 2005, by President Arroyo of Presidential Proclamation No. 861, declaring the first week of July 2005 as “National Biotech Week,” and the consultant team helped the DA prepare for and conduct it. Highlights of the week-long celebration include the following:

(i) the signing of a Memorandum of Agreement between the then DA Secretary Arthur Yap and Mayor Ramon Guico, President of the League of Municipalities of the Philippines, for both institutions to support a joint program of capacity building and outreach on modern biotechnology applications at the LGU level;

(ii) an exhibit of commercial biotech products already in the country;

(iii) a “biotech shopping” seminar to showcase 10 select biotech technologies that was attended by more than 300 participants;

(iv) the launching of the Agricultural Biotech Center at the Philippine Rice Research Institute by virtue of Administrative Order No.21 series of 2005 signed by former Secretary Yap;

(v) a farmer-to-farmer exchange program held at a Bt-corn field in Pangasinan, in which close to 50 non-Bt corn farmer leaders participated;

(vi) a scientific symposium on modern biotechnology for the academe and scientific community; and

(vii) a biosafety and applied seminar on DNA forensics attended by about 80 participants from different affiliated government agencies.

On 3 May 2006 President Gloria Macapagal-Arroyo issued Proclamation No. 1053 declaring the first week of July 2006 as the second National Biotechnology Week and designating the Secretary of the Department of Science and Technology (DOST) as chair of the working committee in charge with this year’s celebration.

The Table 1 below summarizes BCP’s IEC and institutional capacity building activities accomplished under Phase I.

Table 1
EMERGE Project
Summary of Institutional Capacity Building and IEC Activities
Biotech Coalition of the Philippines
May 2005 – July 2006

Type of Activities	Trainings/Workshops/Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
Institutional Capacity Building	Forum on Biotech Policy and Regulations Harmonization Across Government Agencies in Celebration of the 2005 National Biotech Week	Guidelines & Protocol Development	4-Jul-05	9	BSWM-DA	325	Government regulators and policymakers, technology developers, scientists, academe, media, NGOs, general public
	Conduct of the Nationwide IRM Acceptability Survey	IRM & Field Testing	3 rd week of July to 1 st week of August 2005	42	Nationwide	1,200	Farmers, government regulators, technology developers, scientists
	Technical Presentation on the National IRM Acceptability Survey	Guidelines & Protocol Development	16-Aug-05	5	NAFC, DA	43	Government regulators and policymakers, technology developers, scientists
	Biosafety Seminar for Nauhan, Oriental Mindoro	Biosafety Seminar for LGUs	19-Aug-05	8	Nauhan, Oriental Mindoro	145	Local government officials and employees, farmers, local community
	Post-survey Technical Working Group Meeting of IRM Regulators and Scientists	Guidelines & Protocol Development	29-Aug-05	5	NAFC, DA	17	Government regulators and policymakers, technology developers, scientists
	Technical Working Group Meeting on IRM Strategies	Guidelines & Protocol Development	19-Sep-05	5	NAFC, DA	24	Government regulators and policymakers, technology developers, scientists
	Training-Workshop on Local & International Updates of Agricultural Biotechnology Policy and Regulations	Training/WS for STRP & Biotech Teams	21to 23 September 2005	19	Kaliraya, Laguna	60	Government regulators and policymakers, technology developers, scientists, academe
	Technical Working Group on US IRM Studies with MSU Experts	Guidelines & Protocol Development	26-Sep-05	4	NAFC, DA	23	Government regulators and policymakers, technology developers, scientists

Type of Activities	Trainings/Workshops/Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
	Biosafety Seminar for the Southern Tagalog Region	Biosafety Seminar for LGUs	12-Oct-05	9	Palawan	72	Local government officials and employees, farmers, local community
	Seminar-Workshop on IRM Implementation, Monitoring and Reporting with the Regional Crop Protection Centers (RCPCs)	IRM & Field Testing	13 to 14 October 2005	17	Palawan	39	Regional crop protection centers, government regulators and policymakers, technology developers, scientists, academe
	Seminar-Workshop on the Delayed Ripening Papaya Project	Guidelines & Protocol Development	8-Nov-05	5	BPI Manila	32	Government regulators and policymakers, technology developers, scientists
	Biosafety Seminar for the Ifugao Province	Biosafety Seminar for LGUs	24-Nov-05	8	Isabela, Ifugao	304	Local government officials and employees, farmers, academe, local community
	Technical Working Group Meeting of the IRM Regulators & Scientists for MC17 Revision	Guidelines & Protocol Development	12-Dec-05	5	BPI Manila	23	Government regulators and policymakers, technology developers, scientists
	Biosafety Seminar for Sablayan, Mindoro Occidental	Biosafety Seminar for LGUs	15-Dec-05	9	Sablayan, Mindoro Occ	156	Local government officials and employees, farmers, local community
	Roundtable Discussion on the Role of the Proposed IRM Advisory Team (IRMAT)	Guidelines & Protocol Development	3-Feb-06	4	BPI Manila	27	Government regulators and policymakers, technology developers, scientists
	First Technical Meeting of the IRMAT on Finalization of the IRM Forms	Guidelines & Protocol Development	13-Feb-06	5	NAFC, DA	21	Government regulators and policymakers, technology developers, scientists
	Seminar-Workshop on Biosafety & Empowering LGU for Central Luzon	Biosafety Seminar for LGUs	16 to 17 March 2006	18	Subic	71	Local government officials and employees, farmers, local community
	Seminar-Workshop on the Safe Conduct of Field Tests and Finalization of the Field Test Guidelines	IRM & Field Testing	27 to 29 March 2006	17	Baguio	61	Government regulators and policymakers, technology developers, scientists

Type of Activities	Trainings/Workshops/Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
	Seminar-Workshop on Biosafety & Economic Opportunities for Mindoro Occidental	Biosafety Seminar for LGUs	26 to 27 April 2006	17	San Jose, Mind Occ.	142	Local government officials and employees, farmers, businessmen, local community
	Technical Meeting of DA and BFAD Regulators on GM Food Safety	Guidelines & Protocol Development	2-May-06	4	Richmonde Hotel, Ortigas	44	Government regulators and policymakers, technology developers, scientists
	Training-Workshop on Adventitious Presence for Government Regulators and Scientists	Training/WS for STRP & Biotech Teams	12-May-06	5	BPI Manila	24	Government regulators and policymakers, technology developers, scientists
	Technical Meeting of DA and BFAD Regulators on Identity Preservation (IP)	Guidelines & Protocol Development	12-May-06	4	BPI Manila	16	Government regulators and policymakers, technology developers, scientists
	Second Technical Meeting of the IRMAT on the IRM Technical Studies	Guidelines & Protocol Development	1-Jun-06	4	BPI Manila	26	Government regulators and policymakers, technology developers, scientists
Information Education and Communication	2005 Gawad Galing Biotech Journalism Launching	Seminar/WS for Academe/Media	8-Jun-05	5	Annabel's, Quezon City	36	Media people
	Roundtable Discussion on Agri-Biotechnology for the Mindanao Business Council	RTD / FGD /Public Sem	14-Jun-05	6	Davao	75	Local businessmen, NGOs
	Public Seminar on Agri-Biotechnology for Luzon-Based Mayors	RTD / FGD /Public Sem	15-Jun-05	4	Annabel's, Quezon City	32	Local executives
	Public Seminar on Health Biotechnology for Medical Doctors	RTD / FGD /Public Sem	21-Jun-05	5	Annabel's, Quezon City	62	Medical doctors
	Seminar-Workshop for Mindanao-Based Academe and Media	Seminar/WS for Academe/Media	23 June 205	6	Davao	77	Media people, academe
	2005 National Biotech Week Launch and Forum	RTD / FGD /Public Sem	1-Jul-05	4	BSWM-DA	318	Government regulators and policymakers, technology developers, scientists, academe, media, NGOs, general public

Type of Activities	Trainings/Workshops/Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
	Public Seminar on Biotech Shopping in Celebration of the 2005 National Biotech Week	RTD / FGD /Public Sem	1-Jul-05	5	BSWM-DA	453	Government regulators and policymakers, technology developers, scientists, academe, media, NGOs, general public
	Farmer Exchange Program-Luzon Leg	Farmer Exchange Program	6-Jul-05	10	Pangasinan	85	Farmer-leaders
	Seminar on the Use of DNA Forensics for the DILG	RTD / FGD /Public Sem	8-Jul-05	5	DILG	87	Government regulators and policymakers
	Public Seminar on Modern Biotechnology for Mindanao-Based Indigenous People Communities and Farmer Leaders	RTD / FGD /Public Sem	29-31 August 2005	7	Davao	85	NGOs, farmers
	Seminar-Briefing on Agricultural Biosafety for DA Region IV Officials	RTD / FGD /Public Sem	27-Sep-05	8	BPI Quezon City	44	Local government administrators
	Roundtable Discussion on Biotech Opportunities for Rural Bankers and Credit Cooperatives	RTD / FGD /Public Sem	5-Oct-05	6	Annabel's, Quezon City	29	Financial institutions, cooperatives, farmers, technology developers, scientists
	Pre-COP MOP 3 Consultative Roundtable Discussion	RTD / FGD /Public Sem	17-Feb-06	6	NAFC, DA	17	Government policymakers, technology developers, scientists
	Symposium on Biotech Applications with the Women for the Advancement of Science and Technology (WAND)	RTD / FGD /Public Sem	31-Mar-06	4	PCA Compound	44	Scientists, academe, general public
	Public Seminar on the Safety of GM Pharmaceutical Crops	RTD / FGD /Public Sem	2-May-06	4	Richmonde Hotel, Ortigas	77	Government, technology developers, scientists, academe, media, NGOs, general public
	Farmer Exchange Program-Visayas & Mindanao Leg	Farmer Exchange Program	29-30 May 2006	17	Gingoog City and Valencia, Bukidnon	45	Farmer-leaders
	Media Video-Conference on Biotech Commerce in Celebration of the 2006 National Biotech Week	Seminar/WS for Academe/Media	7-Jul-06	8	BSWM-DA Baguio, Cebu, Davao	80	Media people, scientists, academe, government regulators and policymakers, general public

Table 2
Summary of Institutional Capacity Building and IEC Activities
Biotechnology Coalition of the Philippines
September – December 2006

Type of Activities	Trainings/Workshops/ Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
Institutional Capacity Building	Seminar on Risk Assessment of GM Crops For Commercial Release	Training-Workshop for Regulators	20-22 September 2006	24	PHINMA Training Center, Tagaytay City	89 (31 Male, 58 Female)	polymakers and regulators, technology developers
	Seminar on Roundup Ready Crops	Guideline and Protocol Development	14 November 2006	4.5	NAFC Conference Hall, Department of Agriculture	55 (16 Male, 39 Female)	polymakers and regulators, technology developers
	Technical Meeting on Status of IRM Studies and Field Reporting & Monitoring	Guideline and Protocol Development	07 December 2006	4.5	Crop Protection Division (CPD) Conference Room, Bureau of Plant Industry, Manila	23 (11 Male, 12 Female)	polymakers and regulators, technology developers
	Echo Seminar on Discussions during the 6th Session of the Codex Task Force on Food Biotech	Guideline and Protocol Development	08 December 2006	4	Apacible Conference Room, Department of Agriculture	41 (14 Male, 27 Female)	polymakers and regulators, technology developers
	Technical Meeting 1 on the Renewal of GM Permits	Guideline and Protocol Development	29 December 2006	4	Conference Room, Office of the Dean, College of Agriculture, UP Los Baños	31 (13 Male, 18 Female)	polymakers and regulators, technology developers
Information Education and Communication	Seminar-Workshop on Economic Opportunities in Biotech for Caraga	Seminar-Consultation on Biosafety/ Biocommerce	27-28 September 2006	18	Northern Mindanao State Institute of Science and Technology (NORMISIST), Butuan City	120 (65 Male, 55 Female)	LGU officials (executives and technical officers), farmers, people's organization, academe, investors/ business organizations, media
	Jose G. Burgos, Jr. Awards for Biotech Journalism (2 nd Gawad Galing for Biotech Journalism)	Public Seminar & RTD on Modern Biotech	08 November 2006	5	Club Filipino, Greenhills, San Juan	70 (36 Male, 34 Female)	media, polymakers, APEC delegates

Type of Activities	Trainings/Workshops/ Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
	Public Seminar on Modern Agricultural Biotech for Cagayan	Public Seminar & RTD on Modern Biotech	21 November 2006	7.5	Cagayan Valley Lowland and Marine Research Outreach Station (CVLMROS), Iguig, Cagayan	73 (44 Male, 29 Female)	LGU officials (executives and technical officers), students, media
	Public Seminar on Modern Agricultural Biotech for Isabela	Public Seminar & RTD on Modern Biotech	23 November 2006	7.5	DAR Regional Office, San Fermin, Cauayan City, Isabela	87 (46 Male, 41 Female)	LGU officials (executives and technical officers), farmer/coop leaders
	Seminar Series and Study Tour for Select Region 2 College Students	Public Seminar & RTD on Modern Biotech	27-30 November 2006	36	Philippine Carabao Center, Nueva Ecija; Philippine Rice Research Institute, Nueva Ecija; Institute of Plant Breeding, UPLB; International Rice Research Institute	78 (36 Male, 42 Female)	Students
Information Education and Communication (cont.)	Public Seminar on Modern Agricultural Biotech for Ifugao	Public Seminar & RTD on Modern Biotech	14 December 2006	7.5	Potia Bgy. Hall, Alfonso Lista, Ifugao	76 (43 Male, 33 Female)	LGU officials (executives and technical officers), academe, students
	Seminar-Workshop on Economic Opportunities in Biotech for Iloilo	Seminar-Consultation on Biosafety/ Biocommerce	05 October 2006	8	Leganes Multipurpose Building, Leganes, Iloilo City	57 (32 Male, 25 Female)	LGU officials (executives and technical officers), farmers, investors/ business organizations
	Seminar-Workshop on Biotech Economic Opportunities for N. Mindanao	Seminar-Consultation on Biosafety/ Biocommerce	14-15 December 2006	18	Marawi Resort, Marawi City, Lanao del Norte	112 (66 Male, 46 Female)	LGU officials (executives and technical officers), farmers, academe, investors/ business organizations

Task 2.2.1.3b Institutional capacity building and information, education and communication (IEC) campaign on modern technology, Phase 2

USAID approved on Aug. 24 the PO for Phase 2 of the ICB and IEC activities on biotechnology, with the Biotech Coalition of the Philippines (BCP) as vendor. The BCP assisted the DA in the conduct of one activity for institutional capacity building and one activity for IEC campaign. For next quarter, BCP was to continue to conduct ICB and IEC activities on biotechnology, some of which will be in support of Task 2.2.1.5.

During the fourth quarter of 2006, the Biotech Coalition of the Philippines (BCP), the vendor for this task, conducted 1 institutional capacity building (ICB) activities for policymakers, regulators, technology developers and LGU officials; and 8 information, education and communication (IEC) activities for LGU officials, academe, students, farmers and business organization. Please refer to Table 2 above for the details of these activities.

Task 2.2.1.4 Capacity building for public research institutions to comply with biosafety regulations for transgenic crops

Performance Milestone Achieved: *The National Committee on Biosafety for the Philippines (NCBP) approved on January 3, 2007, the conduct of confined trials of the papaya-ring-spot-virus (PRSV) resistant papaya.*

This task is in response to the request of the Institute for Plant Breeding (IPB) of the University of the Philippines at Los Banos (UPLB) for EMERGE grant assistance for field trials of a locally developed Bt eggplant. EMERGE received three unsolicited proposals for grants to help the proponents comply with the DA AO 8 biotech regulations for the general release to the environment of three technologies. These are: (i) field testing of transgenic papaya with delayed ripening trait toward commercialization by Dr. Evelyn Mae Tecson-Mendoza; (ii) accelerating the development and commercialization of papaya ringspot virus (PRSV) resistant papayas in the Philippines by Dr. Desiree Hautea; and (iii) new fruit and shoot borer-resistant (FSBR) eggplant varieties for the Philippines, also by Dr. Desiree Hautea.

In July 2006, the EMERGE Grants Committee met a number of times to evaluate the revised proposals. In these meetings, Dr. Saturnina Halos was invited to join the committee to provide the scientist perspective of the review. The committee identified the activities that can be implemented within the project life of EMERGE. The three proposals were submitted to USAID for approval in August 2006 and were approved. For FSBR eggplant, the EMERGE grant will cover activities that will enable the proponents to complete the data requirements to apply for the NCBP certificate. For the PRSV papaya, the completion of the activities under the grant will enable the proponents to complete half of the data requirements for NCBP application. On the other hand, the grant for the delayed ripening of papaya will cover the field testing of transgenic papaya with delayed ripening trait toward commercialization.

a. PRSV Papaya – During the fourth quarter of 2006, implementation of some of the activities was delayed because the IPB-UPLB Genetics Laboratory is undergoing rehabilitation after it was damaged by super-typhoon “milenyo.” During the first quarter of 2007, the following activities were expected be implemented: (i) start confined trial planting activities; (ii) continue with

development of product and regulatory file packages; and (iii) in-country training/workshop for PRSV papaya partners.

b. FSBR eggplant –Some of the planned activities were delayed due to the rehabilitation of the IPB-UPLB Genetics Laboratory after it was damaged by super-typhoon “milenyo.” Problems were also encountered in FSB mass-rearing using plastic trays used by Mahyco, which resulted in insect deaths and fewer test insect populations. Continuous rainfall caused the delay in the completion of site development.

During the first quarter of 2007 the following activities were expected to be undertaken: preparation of the final manuscript on monograph on the biology of eggplant; development of Site 2 confined trial site; 3rd backcrossing; continued development of product and regulatory file package; and an in-country training/workshop for FSBR eggplant partners.

c. Delayed ripening papaya –The plantlets are ready for replanting in the field in January 2007. The seedlings were subjected to PCR screening to determine the presence of the transgenes. For biochemical and nutritional analysis, the papaya fruits from the 3 lines and nontransgenic Davao Solo were harvested and submitted for proximate analysis to the National Institute of Biotechnology and Microbiology. The results of the analysis are expected in January 2007.

Like with the PRSV papaya and FSBR eggplant research, damage in the Biochemistry laboratory caused by “Milenyo” caused delay in some of the activities. Fortunately, the greenhouse containing the transgenic papaya plants and all stored seeds were not damaged.

Task 2.2.1.5 Developing the policy, regulatory, and institutional capacity of DA and BFAD on biopharming

The objective of this TA is to help the Philippine government develop policy guidelines and institutional capacity for the regulation and eventual commercialization of plant-made pharmaceuticals. EMERGE received an unsolicited grant proposal from ISAAA to assist DA and the BFAD with following activities: (i) develop protocols for re-application, commercialization, and de-listing, all of which are meant to implement specific provisions of DA AO 8; (ii) develop guidelines on the regulation of GM pharmaceutical crops; (iii) formulate policy briefs strengthening the science-based implementation of the National Biosafety Framework (NBF); and (iv) conduct a study on the investment climate of the biotech industry in the country. The grant proposal of the ISAAA was approved by USAID late July 2006.

During the fourth quarter of 2006 ISAAA worked on three major tasks. *First*, the team assisted the DA Policy Research Service (PRS) work on the final draft of its risk assessment protocols for the commercial propagation of GM crops, based on results of the three-day seminar-workshop conducted last September for this purpose. The revised protocols were completed and endorsed to the Office of the DA Secretary for formal consideration

Second, the team worked on the initial drafts of the biotech industry survey instruments for R&D institutions and private biotech companies. The team also worked on the initial sampling frame of the survey. They were able to secure from the Securities and Exchange Commission (SEC) a preliminary database of its listed food and manufacturing companies.

Third, the technical working group writing the implementing rules and regulations (IRR) of the National Biosafety Framework (NBF) held their third meeting on 25 October 2006 to discuss, among other things, the issue of socio-economic considerations. An initial agreement to issue a joint guideline between DA and the Department of Environment and Natural Resources (DENR)

was reached based on the DA submission on how to handle environmental impact assessments for products of modern biotechnology.

For the first quarter of 2007, the grantee is expected to complete the (i) final draft of the biotech industry survey questionnaire; (ii) policy briefs on the science-based implementation of the National Biosafety Framework; (iii) draft DA guidelines on the reapplication of GM plants and plant products; and (iv) draft DA guidelines on the delisting of GM plants and plant products.

<i>Reform Result 2.2.2 Investment climate improved</i>
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Task 2.2.2.1 Diagnostic assessment of Investment Climate in priority sectors

EMERGE held separate meetings during the fourth quarter of 2006 with DTI Undersecretary Thomas Aquino and BOI Director Raul Angeles to give them copies of the diagnostic study on improving the investment climate for the coconut industry. Both officials were appreciative of the EMERGE TA. Usec. Aquino will take up the matter of promoting such investments in the DTI-led national clusters program, which looks into investment coordination opportunities in key industries that the government is promoting. He suggested that a cluster for the emerging coconut products could be set up, consulting DOST and DA on the matter. Dir. Angeles discussed a BOI plan to organize a business development team to spearhead the promotion and development of the emerging coconut products as priority for investment. This task is done.

EMERGE took note of the increasing interest of the business sector in investing in the coconut industry. An example of this is the integrated coconut processing plant in Oroquieta City in Mindanao which received a PhP 6 million grant from AusAid. The project follows a 50,000 nuts-a-day business model and requires 2,000 hectares of coconut farm. The model is much larger in scale than the 5,000 nuts-a-day model recommended by the EMERGE consultants.

EMERGE also participated in a meeting organized by DFA Undersecretary Edsel Custodio on how to attract European investors on the industry. The Asian Investment Program, with assistance from the EU, plans to organize a series of investment forums in Asia covering a range of investment areas, including the emerging coconut industries. This task is done.

Task 2.2.2.2 Improve business development support services for SMEs

This task is in response to the issue raised by NEDA Secretary Neri in the May 13, 2005, TIERG Policy Advisory Committee meeting on the need to design effective credit mechanisms for SMEs. EMERGE expected to work on the details of this task and prepare the TOR when the credit bureau law is enacted by the Philippine Congress, helping to operationalize the credit bureau. In the fourth quarter of 2006, the NCC wanted EMERGE to work on the details and prepare the TOR for this task after the Philippine Congress enacted the credit bureau law. However, EMERGE received word from BSP Deputy Governor Espenilla that BSP has other resources for what EMERGE and the NCC had planned to do. Espenilla would rather EMERGE continue working on real estate appraisal reforms. Next quarter, EMERGE will take up this matter with the members of the RESCOP.

Task 2.2.2.3. Establishment of feedback mechanisms between investors, their business associations and Philippine government authorities to act on investment bottlenecks

Performance Milestones Achieved: *The Legislative-Executive Development Advisory Council (LEDAC) met in May 2006 for first time in over 6 months and prioritized passage of 11 laws, including AmCham priorities (Clark SEZ, credit bureau, fiscal incentive rationalization, anti-smuggling, and anti-terrorism). Earlier, the AmCham Executive Director spoke with Presidential Adviser on Political Affairs Claudio to request Clark SEZ issue be placed on the May 16 LEDAC agenda and later sent him a letter forwarding AmCham ICIP Legislative Reform priorities.*

A \$21M Millennium Challenge Corporation (MCC) threshold grant was signed in July 2006 at Malacañang. Three AmCham board members attended, and AmCham reps met with the visiting MCC delegation. AmCham had consulted several times with MCC in Manila and Washington to support a threshold grant leading to a subsequent compact program.

President Gloria Macapagal-Arroyo in her 6th State of the Nation Address (SONA) strongly stated her intention to cut red tape and take other steps to reduce business costs and improve national competitiveness. The President instructed DTI Sec Favila to hold a "National Competitiveness Summit" (scheduled on September 29) led by a "National Competitiveness Council." Former President Ramos called for Malacañang and Congress to immediately come up with policies to make RP more competitive.

In that SONA, the President promised heavy public investments in airport, rail, roads and Ro-Ro infrastructure projects in four "super regions" which GRP can afford because of improving fiscal position. The SONA contained several ICIP reform advocacies, including Subic-Batangas Transportation Corridor, reducing red tape, electric power prices and related business costs.

NEDA Director General Neri said GRP should spend PhP1.7 trillion for its core infrastructure investment program until 2010, bringing total infrastructure spending to around 5% of GDP, of which 52% will go to transportation, 21% to power/electrification, 15% to water and 10% to social infrastructure.

The President issued EO 553, establishing the Infrastructure Monitoring Task Force to be headed by the Presidential Management Staff (PMS) chief Yap which "shall take steps to speed up the implementation of projects as appropriate." (AmCham has advocated that a senior official close to the president monitor and resolve problems of major projects.)

GRP paid PIATCO P3B initial payment for Ninoy Aquino International Airport (NAIA) IPT-3, paving way for the GRP to operate the controversial air terminal. President Arroyo ordered DOTC to complete evaluation of structural integrity of NAIA IPT-3 so it can operate by March 2007. DOTC Sec Mendoza and MIAA senior GM Paras said the terminal was 98% complete but needs 8 months to finish construction. MIAA hopes to sign a contract with Takenaka (Japan) to complete unfinished portion, at a cost of \$8M.

The Coastal Road corporate secretary said UEM-MARA (Philippines) signed PhP3.5 billion funding deal with DBP and 4 private banks for long-delayed Manila-Cavite coastal road extension.

IFC country manager Bhagat said IFC is expected to approve a loan for the Southern Luzon Expressway (SLEX) rehabilitation project. SLTC president Dumol said SLEX rehabilitation will be finished by November 2008 despite issues with viaduct's design. MTD (Malaysia) is hoping to start repair work on the Alabang viaduct in October, once it closes financing of total project cost. MTD Group MD Khalid said SLEX will charge the lowest toll per kilometer among 3 toll roads in RP, once rehabilitation work is completed by late 2008.

The NEDA Board approved 2-year extension of **P8B Light Rail Transit-1 (LRT-1) Capacity Expansion, Phase II**, to allow implementing agency to maximize proceeds of loan. LRTA said prospective bidders for \$683M **LRT-1 south extension** project have until October 6 to submit expressions of interest.

NEDA ICC approved “in principle” **EDSA North Transit project** designed to extend Manila Rail Transit (MRT) from North Avenue to Monumento (LRT-1) by 2010. PGMA ordered immediate bidding for \$550M extension project.

Universal LRT expanded original plan for **MRT-7** to accommodate future construction of MRT-4 and MRT-3 extension.

Department of Education (DepEd) Secretary Lapus announced his intention to fully restore **English as RP medium of instruction**. AmCham had written Lapus informing him of ICIP education advocacies, notably the AmCham Promoting English Proficiency (PEP). DepEd seeks P940M to retrain 50,000 teachers in English, math and science in summer vacation 2007.

The House of Representatives approved on 3rd reading HB4701 (An Act to Strengthen and Enhance the Use of **English** as the Medium of Instruction in Philippine Schools) mandating English as medium of instruction in all RP schools in all courses except Filipino.

The PEP project co-chair, staff and partners met with DepEd Secretary Lapus and National English Proficiency Program co-chair Binares who agreed that DepEd will pilot a **computer English training center** for teachers, probably in Batangas. This could lead to similar DepEd centers in other regions.

The PEP project opened a **computer English training center (CELC)** in Sagay National High School.

In preparation for open access, the **Energy Regulatory Commission (ERC)** adopted a Code of Conduct for Competitive Retail Market Participant (CRMP), which includes retail electricity suppliers (RES), local RES, distribution utilities (DUs), entities duly authorized to operate in economic zones and the contestable market. AmCham member GNPowr received first retail electricity supplier license from ERC. Initial operations of the **Wholesale Electricity Spot Market (WESM)** should lead to a Php 0.50/kwh reduction in electricity price.

The Philippine Chamber of Commerce and Industry (PCCI) and AmCham/ICIP held an **Anti-Red Tape and Corruption Workshop** on August 23, 2006. Speakers included WB country director, SWS president, anti-red tape House bill co-author, TI Philippines chair, Newsbreak editor and mayors of Naga, Quezon City and Mandaluyong. Breakout sessions focused on recommendations for anti-red tape bill and Ombudsman, e-governance and e-procurement, and agency-level corruption. AmCham Executive Director and ICIP Senior Advisor were interviewed by press and TV regarding the **AmCham Worst Red Tape Survey**, in which Customs, Internal Revenue and Immigration were the more frequently cited by respondents. Business Mirror ran editorial on results of that survey and reported on its summary results.

The President issued EO554, **removing many fees for export clearances, inspections, permits, certificates and other documentation** required of exporters. She signed an administrative order designating Department of Trade and Industry (DTI) Secretary Favila as “**export enforcer**” with “power to act in behalf of the President on decisions reached by Export Development Council.” She also issued EO557, creating an **Anti-Red Tape Task Force** headed by DTI Secretary Favila.

Customs issued an Administrative Order not forcing exporters to use outside **customs brokers**, to which AmCham had objected for creating useless red tape, raising costs and creating delay.

GRP launched new version of **Philippine Government Electronic Procurement System (PhilGEPS)** at <http://www.procurementservice.org/>. DBM Sec Andaya said procurement for infrastructure projects below P50M should be completed in 43-70 calendar days, while those over P50M should be done in 100 days (down from 157).

*In a Sept 6, 2006, memorandum, DOF Secretary Teves requested President Gloria Macapagal-Arroyo to certify as urgent HB 5742, which removes the **70% EVAT input tax cap**. The House Ways and Means Committee (HWMC) did report out HB 5742.*

*The House approved on 3rd and final reading HB5284 (or the proposed **Voice-over-Internet Protocol Act**), liberalizing internet-based telephone services by law.*

*The House Committee on Constitutional Amendments approved House Resolution 1230, seeking **changes to RP Constitution**, including shift to parliamentary form and reducing most restrictions on FDI and some on land ownership. (Note: ICIP favors removal of economic restrictions but has no position on form of government.)*

Performance Milestones Achieved During the Last Quarter: *Philippine Star frontpaged **worst red tape** concerns submitted by AmCham to Task Force chair Favila. Malacañang said red tape reduction will improve competitiveness. DTI reduced red tape in procedures for **business name registration** and **GSIS** launched G-W@PS, a secure, paperless electronic transaction system for members. DTI and DOF issued Joint Department Administrative Order “Guidelines Implementing RA 8792 on **Electronic Payment and Collection System in Government**”, which allows businesses to pay taxes and fees electronically.*

*President Arroyo issued EO 587, ordering DTI to establish and manage **Philippine Business Registry** system to increase commercial activities by facilitating “seamless transaction environment for business registration and development” across government agencies such as DTI, SEC, BIR and SSS.*

*BI Commissioner Fernandez announced “**visa on arrival**” program for foreign businessmen. Visiting businessmen can secure 30-day visa on arrival, instead of getting visa from RP embassies. (Comment. Based on experience, there is considerable lag time between BI announcing a program and actual implementation.)*

*The **National Competitiveness Summit** adopted the recommendations of Oct 5 FDI Workshop organized by AmCham for inclusion in **National Competitiveness Action Agenda**. National Competitiveness Summit was held Oct 6 at Malacañang with 300 participants from private and public sectors. Summit focused on improving competitiveness as measured by leading international surveys in which Philippines has increasingly lagged behind dynamic Asian economies. Meeting endorsed Action Agenda focused on competitive human resources, efficient public and private sector management, effective access to financing, improved transaction flows and costs, seamless infrastructure network and energy cost-competitiveness and self-sufficiency. It also included recommendations of FDI Workshop sponsored by AmCham. President Arroyo said she would establish public-private National Competitiveness Council to monitor implementation. Among specific announcements at Summit: Sec. Mendoza will extend driver’s license from 3 to 5 years and issue in 30 minutes; ICR cards will be valid for 5 years; the President targeted 30% improvement in English of high schools graduates by 2010 (currently under 10%); and she signed presidential directives to improve competitiveness.*

*Congressional Bicam passed **Biofuels Act of 2006** and the House approved on 3rd and final reading HB 5563 “**Renewable Energy Act of 2006**.”*

*DTI Usec Hernandez said **new BOI policy** requires power project proponents to show that consumers will benefit through reduced cost to qualify for ITH incentives. BOI is considering using such criteria for other infrastructure projects.*

*ERC granted provisional authority to MERALCO and NAPOCOR on their application for approval of MOA to implement **Customer Choice Program** for large industrial and commercial customers. NAPOCOR and MERALCO signed **5-year transition supply contract** (TSC) expected to ensure MERALCO customers of continuous reliable supply of electricity. TSC will terminate a year after introduction of open access.*

Senate passed on 3rd and final reading bill repealing **70% cap** on input EVAT, which House passed earlier, and the President signed RA9361, amending Section 110(B) of the National Internal Revenue Code of 1997 as amended, **repealing 70% cap on input VAT**.

DOF Sec Teves, DTI Sec Favila, SWMC chair Recto, Senate Trade and Economic Affairs COM chair Roxas, HWMC chair Teves and House Trade and Industry COM chair Cua met on **fiscal incentives rationalization** bill, agreeing to retain VAT exemption on imported inputs for 100% exporters located in ecozones. They also discussed on 3-year phaseout of ITH in order to give GRP time to develop infrastructure, cut red tape and lower cost of doing business and retention of BOI and a “positive” list of industries to incentivize agreed to with the Congress.

Senate approved on 3rd and final reading **SB 2259**, seeking to extend tax amnesty to ecozone locators outside of Subic, and **SB 2260**, which seeks to provide tax perks to locators in current and future ecozones, especially Clark. Senate passed on 3rd reading “**Lending Company Regulation Act of 2006**,” which governs establishment, operation and regulation of lending companies. HWMC approved **PERA bill**.

Twelve foreign and local firms registered interest to bid for \$600M **LRT Line 1 South extension project**.

The Bureau of Customs (BOC) said it would implement in November a **ban on importation of used motor vehicles** following issuance of Customs Memorandum Circular No. 241-2006.

GRP Success Stories: PEZA reported economic zones recorded 13% increase in **export earnings** from Jan-Sept to \$26B from \$23B in same period 2005. BSP reported **net FDI** from Jan-Sept 2006 rose 64% year-on-year to \$1.6B. PEZA reported **investments** in export zones amounted to P70B in first 11 months of 2006, a 41% increase compared to 2005. NSO reported **exports** in October rose 15.5% year-on-year to \$4.2B, boosted by increased electronics shipments. January-October exports reached \$39B.

PSALM announced consortium of SN Power (Norwegian) and Aboitiz Power (RP) was highest bidder, bidding \$530M, for **360MW Magat Hydroelectric Plant**. PSALM also attached 95MW supply contract to Magat.

CIAC president Luciano said three more low cost carriers are starting service to **DMIA**. Hong Kong Airways started 4 weekly flights to Hong Kong on December 10. Tair Airlines will serve Riyadh-Jeddah-Clark route 4 times weekly beginning January 2007. Thai Air Asia will start flights from Bangkok in February 2007.

EMERGE received an unsolicited proposal from the American Chamber of Commerce (AmCham)-Philippines for a grant to undertake a set of activities aimed at improving the investment climate and increasing investment in the country. The project has three components: (i) networking and business monitoring; (ii) policy research and analysis; and (iii) investment climate reform advocacy. EMERGE negotiated an appropriate TOR that supported its contract SOW, and a 12-month grant was approved by USAID on February 22. The AmCham Investment Climate Improvement Project (ICIP) was to identify impediments and disincentives that hinder domestic and foreign investments in the Philippines and identify and communicate to the Philippine Government activities which have high potential of generating additional investment and jobs. The ICIP philosophy is not that AmCham will lead these activities but will join, support and otherwise coordinate its reform advocacies with like minded reform groups working for a better Philippine investment climate. The activity got underway in March 2006 and was to end on February 28, 2007.

Task 2.2.2.4 Establishment of mechanisms to increase Philippine stakes in stronger intellectual property rights (IPR) enforcement

Intellectual Property Office (IPO) Director-General Adrian Cristobal, Jr., requested EMERGE TA to establish the mechanisms to increase Philippine stakes in stronger IPR enforcement in the country. The IPO would like to develop strategies and projects that would allow Filipinos to see the benefits to the economy of better IPR enforcement. The TOR has two components. The first one is a training program for representatives of selected universities and publicly supported research centers. With this activity, IPO would assist at least six state universities and 5 research centers set up IP policies and technology licensing offices (TLOs). The second component is a training program on IPR for the regional officials of the Department of Trade and Industry (DTI). The activity aims to involve business councilors of DTI in the region in the IP asset commercialization program. IP assets are important sources of competitiveness and need to be protected. IPO has no offices in the regions and is cooperating with DTI Regional Operations to facilitate applications for IPRs by universities and research centers in the regions. EMERGE is waiting for the IPO to decide when it wants to conduct the training.

Task 2.2.2.5 Accelerating land titling in the Philippines through a better use of existing survey and land-related records

This task is in response to NEDA Director General Romulo Neri's desire for EMERGE to help speed up the process of providing negotiable land ownership documents that could be used as collateral for business loans and a request of Department of the Environment and Natural Resources (DENR) Undersecretary M. Gerochi and Land Management Bureau (LMB) Director E. Tiamson for EMERGE TA to help LMB accelerate land titling in the country. The initial TA activity identified in several meetings was the design and preparation of building plans for storing survey and related land records for easier access at the regional level. However, EMERGE needed DENR/LMB to provide written assurance that some of its funds will be allocated for the actual construction of the regional buildings to store survey and related land records if EMERGE proceeds to support their design, as required by USAID. Since this written assurance could not be obtained, EMERGE must drop this task.

Task 2.2.2.6a Improving financial transparency in mining industry

This task assists the Chamber of Mines of the Philippines to conduct a pilot implementation of a simulated extractive industries transparency initiative (EITI) aimed at reconciling the payments made by mining companies and the revenues received by Philippine government entities.

Approved by USAID in September 2006, the TA is to come in two phases. Phase 1 will cover the development of reporting templates for the mining companies and the LGUs in the pilot mining areas. The templates will be developed in coordination with the various stakeholders: mining companies, LGUs, and the relevant national agencies. Phase 2, on the other hand, will be the implementation of the audit using the templates and analysis of the financial audit reports. EMERGE has hired the services of Ms. Nelia Halcon and Mr. Ed Coronel to work on Phase 1.

The selection of a firm to conduct the financial audit was not accomplished last quarter because the draft financial reporting templates, which will be used to define the scope of work of the audit firm, were completed only in December. This activity will be the priority early next quarter. Other activities next quarter include: (i) presentation by the Chamber of the TA to the

Mining Development Council (MDC); (ii) consultation meetings with the LGUS in Zamboanga del Norte and officials of the TVIRD; and (iii) the financial audit.

Task 2.2.2.6b Manpower and remuneration assessment in the mining industry

Expected Performance Milestone: *The industry and the Minerals Development Council are expected to adopt a work plan for addressing the growing shortage of manpower skills particularly in the medium to large metallic mining industry.*

The Chamber of Mines submitted to EMERGE a grant proposal to conduct an assessment of manpower needs and supply in the metallic mining industry. The growing shortage of skills poses a threat to the competitiveness of the industry. The assessment will be used in developing a work plan for mitigating the shortage. The EMERGE Grants Committee evaluated the proposal and informed the Chamber of its comments, which were meant to improve the proposal to better address the concerns of the mining industry regarding its manpower. Ms. Nelia Halcon, the Executive Director of the Chamber, expressed a concern that the comments and suggestions for improvements from the project appeared to complicate the activity. Next quarter EMERGE will try to help the Chamber carry out the suggested improvements and produce a revised TOR, which will be submitted to USAID for approval.

Reform Result 2.2.3 Investment facilitated

Task 2.2.3.1 Strategic Development Initiatives

Performance Milestones Achieved: *1) Among the recommendations of the first consultant engaged under this task (Dr. Limlingan) was the need to strengthen the middle management level in Government, and this led to a request by the NEDA Secretary for JICA to fund a program to do so. 2) He recommended a reconsideration of the current BOT Law, which the NEDA Infrastructure Committee is now endorsing. 3) He also recommended a concerted effort to revive the mining industry, providing support for NEDA Secretary Neri's efforts to create a better investment climate for mining. 4) The second consultant of this task (Mr. Chikiamco) developed information and recommendations that were later used by the NEDA Secretary a) to strategize how property rights can be used as a tool for upland communities to access credit for enterprise development and b) in Monetary Board discussions on how to use local tax returns to facilitate access to credit.*

Infrastructure-- Specific Tasks

Reform Objective 3.1 Lower transportation cost

Reform Result 3.1.1 Inter-island shipping cost reduced

Task 3.1.1.1a Reduce Inter-island Shipping Costs—RoRo

This task was completed in October 2005.

Performance Milestones Achieved: *1) EMERGE team drafted Executive Order (EO) 170-B "Encouraging Further Expansion of the Country's Road Roll on/Roll off Terminal System (RRTS) and Reduction of Transport Cost through Increase in the Number of RoRo Capable Ports and Conversion of More Private Non-Commercial Port Operations to Private Commercial Port Operations," which was signed by the President on September 19, 2005.*

2) The team provided technical assistance to the Federation of Philippine Industries (FPI) in drafting a RORO Bill submitted by FPI to the Technical Working Group (TWG) created by the House Committee on RORO and Railways (chaired by Rep. Baculio) to consolidate comments on the RORO Bill (HB 335) filed by Rep. Marcos. The team contributed several of the important new provisions contained in the FPI version not found in the original HB 335.

3) The EMERGE team also provided comments to improve Philippine Ports Authority (PPA) Administrative Order (AO) 03-2004, "Guidelines on the Development, Construction, Management and Operations of Ferry Terminals under the RRTS." One of its recommendations was to privatize PPA ports, and PPA has subsequently started bidding out financial studies to establish market values for ports prior to their privatization.

Expected Performance Milestone: The team drafted an action plan outlining a safety net program for port workers affected by a proposed Chassis on RoRo (CHaRo) provision, including possible sources of funds to finance it. However, this plan has not yet been implemented.

Task 3.1.1.1b Reduce Inter-island Shipping Costs—Ports

Performance Milestones Achieved: The Department of Interior and Local Government (DILG) issued a Memorandum Circular directing all local chief executives to refrain from enforcing any existing ordinance imposing fees and taxes on inter-province transport of goods and regulatory fees from passengers in local ports. The EMERGE Ports team (Henry Basilio and Rafael Hernandez) assisted the National Economic Development Authority (NEDA) in explaining to the DILG that the imposition of fees by LGUs on cargoes is illegal based on the Local Government Code of 1991.

The Ports Team provided inputs on the RORO portion of the President's State of the Nation Address (SONA), which were accepted and included in that address.

The EMERGE Ports Team provided comments to NEDA Director General Neri and to the Transportation Committee of the Philippine Chamber of Commerce and Industry (PCCI) on the draft TOR for the privatization-modernization of North Harbor. The salient points of the team's recommendations were:

- Reiteration of its previous position (also adopted by PCCI) of having at least two operators in North Harbor;
- Need to clarify the benefits to be given to labor in North Harbor who would be re-trenched as a result of the privatization;
- Need to clarify the basis for the concession fee in the event the contract to operate is awarded;
- Need to have a clear process/procedure for tariff setting;
- Need to clarify the basis for future expansion of port capacity.

PCCI included these recommendations among its own comments on the draft TOR to be sent forward.

Expected Performance Milestone: Reforms in port privatization policies and more competitive port operations in Manila North Harbor.

This is a new subtask requested on an urgent basis by NEDA DG/Secretary Neri in May 2006. EMERGE developed a TOR in response to his request and USAID approved the hiring of Henry Basilio and Rafael Hernandez as consultants for this TA. The EMERGE Ports Team was tasked to assist and provide TA to NEDA Director General and Socio-economic Secretary Romulo Neri, the Department of Agriculture (DA) Sec. Arthur Yap (former Presidential Management Staff Director General), and the Export Development Council to promote greater competition and further the development in the country's port sector. This was in response to the sector's

inefficiencies that increase the cost of transportation. The team submitted its final report on December 8, 2006. This task is done.

Task 3.1.1.2 DBP lending policies and guidelines on private sector access to infrastructure funds streamlined

EMERGE expected to start work on this task in the 1st quarter of 2006, but it was delayed since Development Bank of the Philippines (DBP) placed priority on the promotion of the RRTS (Task 3.1.1.3), the approval of which was delayed in USAID. EMERGE expected to work with DBP staff to draft the SOW for this proposed task during the previous quarter. However, funding for this TA was eliminated as part of the USAID reduction of the EMERGE budget.

Task 3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project (Eastern and Palawan nautical highways)

Expected Performance Milestone: DBP to distribute an investment portfolio for proposed RORO terminal connections in Sorsogon, Masbate and Cebu.

A SOW on RORO shipping was drafted for TA to the Development Bank of the Philippines (DBP) on the preparation of an investment folio covering the Road RoRo Terminal System (RRTS) connections on the nautical highway. RRTS is one of the flagship programs of the government. Executive Order (EO) 170 and subsequent issuances set the policy that the RRTS be integrated into the national highway system. EMERGE and DBP finalized the TOR and, after a lengthy search, identified qualified consultants for the team. EMERGE sent a request for approval of the TA to USAID on December 22, 2005. The TOR and the proposed team composed of Ruperto Alonzo, Gudmund Rognstad, Asar Ashar and Adora Navarro were finally approved by USAID on April 11, 2006.

The RRTS team made their first field visit to Pilar, Sorsogon, Aroroy and Masbate City in Masbate on May 22-27 and another field visit on June 21-23 to the municipalities of Bogo and Daanbantayan in Cebu province.

The RRTS team submitted a draft report to EMERGE and DBP during the last quarter. The report showed that the RRTS can be made to work with significant private sector participation as presented in the review and viability analysis of the Bicol Mainland-Masbate-Cebu connections (Central Nautical Highway). The review pointed out that in practice, RoRo vessel operation and RoRo terminal operation in the Philippines are often viewed as separate activities—the government through the Philippine Ports Authority (PPA) or the local governments provide the port services and the private sector supplies the vessel services. The review concluded that for any defined route, the two are actually interdependent and complementary investments (one cannot operate without the other), and there is merit in “bundling” both into a single business if integration proves to be viable. For the case at hand, i.e., the Bicol Mainland-Masbate-Cebu connections, integrated operation is financially viable, offering sufficient returns to attract private sector interest not just in vessel but in port operations as well.

Both EMERGE and DBP reviewed the draft report and provided the team with comments to improve it. In the next quarter, the team will submit a revised report (January 2007) and DBP will present it to its ManCom (February 2007). Thereafter, the DBP team (Mar Enecio, Mitzi Hernandez, Simple Apolinar and Raul Pasagui) together with EMERGE and Dr. Ruperto Alonzo will present the results of the review to various stakeholders, especially LGUs and private investors, in three regional forums (Bicol, Masbate and Cebu).

Reform Result 3.1.3 Roads adequately maintained

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

C. Virata and Associates finalized and submitted its report on the Road User Fund to EMERGE during the last quarter. This task is now finished.

Performance Milestone Achieved: *The Road User Fund consultants presented their assessment to the Road Board on December 12, 2005. The Road Board accepted their findings and is basing its agency restructuring plans on the recommendations.*

Reform Objective 3.2 Make telecommunications and IT more affordable and accessible

Reform Result 3.2.1 Telecommunications access increased and costs lowered

Task 3.2.1.1 Laws and regulations supportive of ICT sector development drafted and e-Government strategy developed (spectrum management policy, rules and regulations)

Performance Milestones Achieved: *1) With EMERGE TA, the NTC issued Memorandum Circular 05-08-2005 (5 Aug 05) re: Voice over Internet Protocol (VoIP), which formally classified VoIP as a Value-Added Service (VAS). NTC issued Memorandum Order 3-11-2005, "Guidelines for the Registration of VoIP Providers and Resellers," on 23 Nov 05. With these guidelines, Memorandum Circular 05-08-2005 declaring VoIP as a Value Added Service and opening it up for entry even by companies other than telecommunication companies, will now be implemented.*

2) NTC, consistent with recommendations from EMERGE competition policy consultants, issued interim rulings for innovative, competitive price plans that, a) allow CMTS operators to set and establish minimum standards for grade of service and drop call rates which should be disclosed to the Commission prior to offering and disclosed to the consuming public in all their advertising, and b) mandate improvement of at least 50% of the difference between the voluntary standard and the NTC standard after one year, and full compliance with the NTC standard after two years.

GRP Success Indicators Achieved: *Lower rates now being charged by telecommunications carriers as these began making offers up to 75% lower within days of the issuance of the Memorandum Circular and are now offering as low as 5 cents per minute for overseas calls made using VOIP technology, an 87.5% drop from the usual 40 cents per minute.*

Increased competition with at least seventeen applications for registration by new VoIP Providers approved by the NTC since the issuance of the Memorandum Circular.

The National Telecommunications Commission (NTC) directed its effort on developing rules and regulations to enhancing competition in the ICT sector and did not make any specific request for TA on revisiting spectrum management policy, rules and regulations. This task is now closed and any additional work along these lines, if requested, will fall under Task 3.2.1.2.

Task 3.2.1.2a Competition policy for ICT sector formulated and implemented

This task has been completed. Support for NTC continues under task 3.2.1.2c.

Performance Milestones Achieved: *On 18 Dec 05 the NTC officially released its consultative document on competition policy for the telecommunications sector. EMERGE provided TA in the research and preparation of the document, which seeks stakeholder and public comments on issues related to specific policy proposals designed to foster greater competition in the telecommunications industry.*

On 28 June 06 the NTC officially convened a Technical Working Group to assist in the development of draft rules to mandate Reference Interconnection Orders (RIOs). RIO Rules are seen to enhance competition by mandating default interconnection arrangements between providers and carriers. EMERGE, at NTC's request, provided TA in identifying key issues for consideration by the TWG.

Performance Milestone Achieved: *The EMERGE competition policy team submitted a draft consultative document on Significant Market Power Obligations (SMPO) to the NTC. NTC accepted the draft, published it on its web page on August 24 as an NTC document and solicited comments on it. The NTC will use the comments in drafting guidelines on SMPO. EMERGE provided TA in the research and preparation of the document, which is an offshoot of earlier TA on competition policy.*

Task 3.2.1.2c Building capacity in NTC to implement competition policy in the ICT sector

USAID approved the request for the extension of EMERGE TA to NTC on 21 Sep 06. The period until June 2007 will be used to help NTC develop the guidelines on Significant Market Power Obligations (SMPO) and the rules on Reference Interconnection Offers (RIO). Joy Abrenica and Jhiedon Florentino worked on the draft rules for the implementation of the imposition of SMPOs and RIOs, which will be submitted in January 2007. The team will then present them to the TWG for review and comments. NTC is expected to issue the official guidelines in the second semester of 2007.

Reform Result 3.2.2. ICT institutions expanded and developed

Task 3.2.2.1a Strategy and plan to expand the use of VOIP and Internet technology in the regions developed

This TA was completed in April 2005.

Performance Milestone Achieved: *The consultant's report included a recommended strategy entitled, "Congressional Initiative in Linking the Global Filipino Family" to increase and promote the use of VOIP in the regions. NEDA accepted much of the consultant's advice on VOIP and the NEDA Director General was one of its most vocal and public advocates. (See for example the article, "NEDA backs calls via Internet," Business World, 23 Feb 05.) Cabinet presentations on VOIP and its benefits were integrated into the Philippine Medium Term Development Plan.*

Task 3.2.2.1b Strategy and plan to expand the use of VOIP and Internet technology in the regions developed

This TA was completed in May 2005.

Performance Milestone Achieved: *The consultant made several recommendations in his report, "Select Emerging Technologies for Rural Connectivity," which included recommendations to support new technologies to increase access to information and communications services. NEDA accepted the consultant's report and supported the implementation of the Evolution Data Only (EVDO), a wireless broadband technology. The commercial roll-out of EVDO is being undertaken by Broadband Philippines, which has been in commercial operation since Sept 2005. Its current focus is in commercial urban areas but, depending on market conditions, coverage will be expanded into regional areas. Broadband Philippines is applying for a license to operate the next generation 3G technology.*

In addition, close to 100 Community e-Centers have been established, principally through the e-government fund through CICT and its agency, the National Computer Center, in partnership with local government units. A number of CeCs are using Voice over Internet Protocol (VoIP).

Task 3.2.2.1c Strategy and plan to expand the use of VOIP and Internet technology in the regions developed (Last Mile Initiative Program)

Performance Milestones Achieved: 1) In the LMI Program, community e-centers (CeCs) in Catmon, Alcantara, Borbon and Sogod, all in Cebu, Maitum and Malapatan, both in Saranggani, Aleosan in Cotabato, Manolo Fortich LGU and public high school in Bukidnon, Bontoc - Mountain Province General Comprehensive High School in Mountain Province, Kiangnan LGU and SITMo NGO in Ifugao and Casa San Miguel in San Antonio, Zambales, have been established using 6 pilot modules for CeC development and e-learning. The team also turned web development training modules over to the ePuggo Community Center.

2) The LMIP team successfully conducted a 2-week pilot CeC staff and trainers training for the Manolo Fortich CeC from February 13 to 24, 2006. The training focused on community development, enterprise development, center operations management and computer training. Comments both from the participants, and the LGU officials were highly positive, and initial indications are that the model is replicable in other CeCs.

3) The team conducted web development workshops for the Kiangnan LGU, ePuggo and Bontoc CeCs in April 2006 focused on developing CeC websites and using the Internet for eco-tourism, rice terraces preservation and the promotion of organic farming.

4) The Department of Education issued on April 27, 2006, DepEd Memorandum No. 167 to officially launch the i-Schools Webboard Training Program. The DeEd and CICT, in cooperation with LMIP and Intel Philippines, conducted the pilot run of the iSchools Webboard training program for 54 participants from 18 public high schools nationwide from May 15 to June 2, 2006. i-Schools is a component of the CICT Community e-Center Program supported by LMIP.

5) The Free and Open Source Software (FOSS) CD Kit, an ICT literacy project of the CICT, was officially launched and distributed during the ICT week on March 23, 2006. The CD compiles free and open source applications, including word processing, spreadsheet, presentation and web authoring tools. A Creative Works Series CD containing open source resources for drawing, image manipulation, 3D modeling and animation was also launched the same day.

The Last Mile Initiative Program (LMIP)-Philippines drafted by EMERGE consultant Atty. Alampay was submitted to USAID/Washington by USAID/Philippines and approved. USAID/Philippines asked EMERGE to implement it. It commenced in September 2005.

The LMIP team drafted an evaluation report on LMIP based on data it gathered in Cebu and Bukidnon November 9-11. On 29 Nov 2006 USAID approved an extension of the LMI Program to June 2007.

In the next quarter, the joint UP-PGH, EMERGE, Upi Maguindanao Cec telemedicine project is expected to be implemented. The LMIP also team expects to train another batch of public high school teachers on the use of the i-Schools web board.

Task 3.2.2.2 Formulating a new Road Map for the development of the Philippine ICT sector

Performance Milestones Achieved: 1) The CICT accepted the initial plans, programs, result areas and strategies which had been formulated with technical and facilitation assistance from the EMERGE ICT Strategic Plan Team and presented them to academe and private sector ICT stakeholders for consultations as part of the "CICT Strategic Roadmap Initiative" on March 22, 2006.

2) The CICT accepted the final design of the hard copy and the CD versions of the road map for reproduction, and they were reproduced in 1,000 copies for distribution. CICT Chairman Ramon Sales announced that his office will officially release the ICT Road Map developed with EMERGE assistance.

EMERGE received USAID approval on February 6 for TA to assist the CICT develop a 5-year strategic roadmap for the ICT sector. During the last quarter the CICT and EMERGE reviewed and accepted the final CICT Strategic Plan (Road Map) for the ICT sector. The team then worked with Think Ideas to help develop a website for it. This task is done.

Reform Objective 3.3 Make Private Sector Participation (PSP) in Public Projects Sustainable

Reform Result 3.3.1 BOT Contract Governance Improved

Task 3.3.1.1 Development of options to improve build-operate-transfer (BOT) contract governance

Performance Milestone Achieved: *NEDA officials have taken cognizance of the analysis and recommendations submitted by the EMERGE team, which they found useful in crafting a proposed bill that amends the current BOT law.*

Expected Performance Milestone: *A bill to amend the BOT Law introduced by the Executive Branch to Congress.*

EMERGE submitted a request to USAID for approval of a legal team to draft BOT Law amendments on August 10, 2005. USAID finally approved the request on January 9, 2006.

EMERGE submitted its report to the NEDA Infrastructure Committee and BOT Center in June 2006. The NEDA Infrastructure Committee, composed of the NEDA, Department of Budget and Management, and the infrastructure agencies of the government (Department of Public Works and Highways, Department of Transportation and Communication) reviewed the EMERGE Report on the BOT experience and its proposed BOT bill. NEDA officials (Deputy Director General Marge Songco, Assistant Director General Benny Reinoso and staff) met in November 2006 to discuss the status of the proposed BOT law amendments and the EMERGE report on BOT experience. They informed EMERGE that they have taken cognizance of the analysis and recommendations submitted by the EMERGE team, which they found useful in crafting a proposed bill that amends the current BOT law. This TA is finished.

Reform Result 3.3.2 Private sector participation enhanced thru privatization

Task 3.3.2.1a Formulation of strategies for the privatization of state-owned enterprises

Performance Milestone Achieved: *The EMERGE team prepared a strategy for the privatization of government assets. DOF Privatization Office Undersecretary Singson accepted it and requested follow-on TA from EMERGE.*

Task 3.3.2.1b Inventory of government assets for privatization.

At the request of DOF Undersecretary Jay Singson, EMERGE prepared two draft TORs for (a) the preparation of an inventory of government assets for privatization and (b) assistance for the privatization of specific government assets. The TOR for an asset inventory was delayed due to a lengthy search for suitable consultants. The DOF Privatization Office (PO) and EMERGE agreed to have a two-stage process for this task. The first stage will consist of establishing a comprehensive data base inventory of government assets to be privatized, while guidelines for

privatization shall be prepared during the second stage. EMERGE drafted a TOR for the first stage. DOF Usec John Sevilla and Annie DeLeon interviewed several candidates and finally selected Ricardo Rigo to be the main consultant for the inventory of government assets. EMERGE contracted Ricardo Rigo and Ronald Conquilla for this task.

During the last quarter the team accomplished the following:

- Revised, updated and submitted the draft Inception Report to EMERGE and DOF-PO
- Incorporated the comments of DOF-PO in the preliminary database fields
- Submitted the final version of the database fields/information to DOF-PO for final review and acceptance and finalized the database fields/information based on the comments of DOF-PO
- Started the data encoding using the final database fields/template
- Started design of prototype for the inventory system

In the next quarter, the inventory team will continue work on the inventory of government assets for privatization, design an inventory management system and train DOF Privatization staff.

Task 3.3.2.1c Privatization of certain government assets.

Maynilad Performance Milestones Achieved: *The DOF Privatization Office 1) completed the retention of ABN AMRO as financial advisor for the sale of Maynilad. The retention was done through Maynilad rather than MWSS to avoid the delay of a government procurement process; 2) changed the Board composition of Maynilad with the resignation of the Benpres designated Board Members and appointment of MWSS designees; 2) obtained the tacit consent of the lenders to a structure where they will consent to a slate of pre-qualified bidders rather than give consent at the final selection.*

The DOF Privatization Office 1) accepted the TOR to solicit a new controlling shareholder for Maynilad, which the EMERGE Privatization Team helped prepare; 2) published invitations to bid June 17, 2006; 3) completed the pre-qualification of bidders (selecting four) for Maynilad on August 25, 2006; conducted pre-bid conferences and consultations on shareholder agreement issues; and set a revised timetable for completion, which is as follows:

- *7 November Deadline for submission of Bid Proposals (Technical, Business and Financial Bids); opening of Technical and Business Bids – to be evaluated on a pass/fail basis*
- *21 November Opening of financial bids – highest responsive financial bid wins*
- *23 November Notice of Award to the Winning Bidder*
- *4 December Closing Date (assignment is effective)*
- *18 December Completion Date (subscription is effective)*

EMERGE Consultant Ray Davis served as part of the DOF Group advising the MWSS Special Bids and Awards Committee (SBAC). The Maynilad bid opening took place on December 5, 2006 and the Maynilad purchase was formally awarded to the DMCI-Metro Pacific Consortium on December 7, with transfer of the shares scheduled to take place in early January. The bid opening was the culmination of more than one year's effort on the part of the DOF Privatization Office to assist the Board of MWSS to best dispose of the rights to acquire 86% of Maynilad arising from the Maynilad Rehabilitation Plan. The bidding process was tailored to Maynilad's need to obtain a large amount of capital to fix the system and reduce losses. The government sold the controlling stake to the highest bidder at its acquisition cost (approximately \$56 million). The winning bidder was selected as the one willing to commit the largest amount of additional capital into the company. The winning consortium, DMCI Holdings, Inc., bid \$447 million of additional committed capital with the runner up, Manila Water, bidding \$400 million.

Nonoc Mine Performance Milestones Achieved: *The DOF Privatization Office, together with the Natural Resources and Mine Development Corporation (NRMD), 1) completed extensive valuation of the Nonoc mine and the ore body to modify and validate a detailed financial model to determine the value of the mine; 2) developed and agreed on a restructuring framework approved by the Privatization Council that would sell the Government's interest for \$45 million of cash to be used to defease the \$300 million obligation with additional consideration paid over time; 3) agreed with Jinchuan Group to a structure where Jinchuan could control the mine and processing through an FTAA revenue sharing structure; and 4) signed an MOU between DOF and Jinchuan setting forth the agreements to date.*

The DOF Privatization Office 1) agreed with Jinchuan to an alternative structure where only the mine will be subject to the FTAA and the processing facility will have a PEZA tax structure; 2) agreed with Jinchuan that the Government will receive equity in the project to compensate for lower taxes under the PEZA structure; 3) worked with the Mines and Geosciences Bureau MGB to complete Draft Regulations for the FTAA (Required to address a recent Supreme Court Ruling).

Amanah Bank Performance Milestones Achieved: *The DOF PO and the Privatization Management Office (PMO) 1) hired PriceWaterhouseCoopers (PWC) as the Financial Advisor for the Amanah Bank transaction; 2) created a privatization plan for the sale of unissued and issued Amanah Bank shares; 3) coordinated with various regulatory agencies (BSP and PDIC) on the take-out of ROPOAs from the Bank; 4) The Privatization Plan of Amanah Bank was approved by the Amanah Board; 5) the Privatization Plan of Amanah Bank was approved by the Privatization Council subject to the establishment of the legal and regulatory framework by the BSP on Islamic banking activities; 6) BSP has affirmed that a privatized Amanah Bank will continue to exercise conventional banking activities in addition to Islamic banking activities for a period to be determined by the Monetary Board; 7) BSP has affirmed that the charter provisions under R.A. 4868 not inconsistent with other banking laws shall continue to govern the privatized Amanah Bank; 8) the PMO has secured the consent of the shareholders of Amanah Bank (DBP, SSS and GSIS) to sell their shares in accordance with the Privatization Plan.*

On January 9, 2006, USAID approved the TA request for 3 advisors to help the Department of Finance Privatization Office (DOF/PO) with the privatization of certain government assets. Undersecretary Jay Singson gave each of the consultants specific assignments. Sunny Sevilla's main tasks concern the financial aspects of privatization affecting PNCC, Al Amanah Islamic Bank, Iloilo Airport, IBC-13, Philippine Postal Corporation, and RPN-9. Job Ambrosio handles the legal aspects of privatization. Ray Davis assists in the privatization of the MWSS interest in Maynilad and of Nonoc Mines. The consultants assisted the DOF/PO by reviewing various legal and financial documents, attending meetings with government agencies and financial advisors on the privatization efforts of the government, reviewing the financial position of government corporations and assets to be privatized and providing general advice on various issues.

Usec Singson requested a 6-month extension of the team's advisory services and met with USAID and EMERGE on June 16 to discuss it. The PO expects to sell or conclude negotiations for the privatization of several important, but complicated government assets by the end of 2006 or during the first quarter of 2007, but needed the continued advice of the EMERGE team of consultants in order to do so. EMERGE drafted a TOR for this extension and USAID approved it on June 21.

EMERGE subsequently prepared another TOR for the extension of Job Ambrosio's and Ray Davis's contracts through June 30, 2007, in response to a request from Usec Sevilla, and sent it to USAID for approval on December 29, 2006.

Nonoc Mines: This project is to restructure \$300 million of debt held by the Privatization and Management Office (PMO) in respect of a 1996 sale of the Nonoc Mine by PMO predecessor Asset Privatization Trust (APT) to Philnico. Only \$1.25 million has been paid on the loan. In 2003 PMO declared a default and sought to rescind the sale. Philnico obtained a restraining order from the Makati Regional Trial Court asserting it was entitled to \$60 million of compensation for supposed investment in the mine. Jinchuan Group, the largest Nickel producer in China is in negotiations with DOF and Philnico to settle the debt, lift the restraining order and allow Jinchuan to invest approximately \$950 million to rehabilitate the mine and processing facility. The main issues were the tax treatment of the mines and the processing plant, tax incentives and revenue sharing.

Although progress was made on this potential investment of \$950 million by Jinchuan Group China during the last quarter, Jinchuan announced on December 26th that it was suspending progress on negotiations on the project until May 2007 and intended to do further field studies on the project. Jinchuan stated that Philnico kept raising its terms during the course of the negotiations. Philnico has subsequently stated publicly that it will entertain discussions with other potential investors. An MOU was signed during the President's visit to China in late October. The MOU addressed the tax treatment for the project, which includes PEZA for the processing plant and an FTAA for the NONOC nickel mine. The MOU states that the Government will receive \$45 million of cash to be used to defease the approximately \$299 million of remaining outstanding debt owed PMO by Philnico for their \$300 million purchase of the mine in 1996. The \$45 million will partly compensate the Philippine Government for the value of the mine. The MOU does not address any additional compensation to the Government. The Government's attempt to rescind the sale of the mine in 2003 was subject to a restraining order of the Makati Regional Trial Court, benefiting Philnico.

Al Amanah Islamic Investment Bank of the Philippines (“Amanah Bank”): This project involves the privatization of Amanah Bank, which is the only Islamic Bank in the Philippines. It is one of the government financial institutions that rely heavily on the deposits of the National Government, through the Bureau of Treasury (BTr), to sustain its operations. The National Government, as early as 2000, tried to sell Amanah Bank, but there were no takers due to its financial condition. Thus, it was decided to first rehabilitate it by cleaning its balance sheet of deposit liabilities (especially those of the National Government) and real properties. The current privatization plan will be done through the sale of unissued and issued Amanah Bank shares. EMERGE consultants continued to provide legal and financial advice on Al Amanah Bank.

The Monetary Board of the BSP approved a proposal that the privatized Amanah Bank will continue to exercise conventional banking functions, in addition to Islamic banking activities, for a period of 5 years. Privatization of the Bank was scheduled for bidding in March 2007. Bid documents were to be released in late February and a Bids and Awards Committee (BAC) has been formed.

RPN-9: Job Ambrosio researched on the legal authority of NTC to revoke a frequency granted to a broadcast network (RPN-9/IBC-13) and to issue frequencies via a public bidding. He also briefed some lawyers of the Office of the Government Corporate Counsel on the relevant laws and processes in the privatization of government assets. The resolution of various other legal and financial issues on the privatization of these assets is expected in the next quarter.

Gold Mine: Ray Davis assisted NRDMC in meetings and in drafting a TOR for soliciting proposals to purchase an interest in a major gold mine owned by the Government.

Banking and Capital Markets-- Specific Tasks

Reform Objective 4.1 Define and strengthen systemic foundations (of banking & capital markets)

Reform Result 4.1.1 A unified strategic approach among stakeholders adopted

Task 4.1.1.1a Technical Assessment of saving patterns and behavior

This task was completed in September 2006.

Performance Milestone Achieved: *The Monetary Board members accepted the study's findings and are looking forward to a follow-on activity to bring someone from the U.S. Federal Reserve Board to help the BSP develop a Consumer Finance Survey (CFS), and they will then consider the EMERGE team's recommendation to make the CFS a rider to the Family Income and Expenditure Survey, administered on another day, to a panel of around 2,000 households.*

This assessment was identified as a priority task by the Bangko Sentral ng Pilipinas (BSP), which is looking for ways to improve its regulations and expand savings. The objective was to identify the demographic variables affecting saving at the household level. BSP Deputy Gov. Nestor Espenilla, who is the primary counterpart, requested assistance to institutionalize the consumer finance survey. With the approval by USAID of the TOR, EMERGE hired Dr. Lisa Grace Bersales and Mr. Dennis Mapa, Sr., on March 6, 2006. The team briefed BSP officials headed by Deputy Gov. Espenilla on their findings on saving patterns, which they estimated using data from the triennial family income and expenditure surveys (FIES) from 1985 to 2003. The consultants recommended that the BSP start a new survey, instead of riding on the Family Income and Expenditure Survey, to institutionalize the gathering of data on consumer finance. The consultants submitted their report comprising three parts, namely (a) profiling of household saving from 1985 to 2003; (b) determinants of household saving; and (c) comparison of the U.S. Survey of Consumer Finances and the Philippines' FIES questionnaires. In September 2006, the consultants presented the study to the Monetary Board and senior management staff of the BSP. The Monetary Board members appreciated the study's findings. They look forward to the follow-on activity, which is to bring someone from the U.S. Federal Reserve Board to help the BSP develop a Consumer Finance Survey (CFS), and they will consider the EMERGE team's recommendation to make the CFS a rider to the Family Income and Expenditure Survey, administered on another day, to a panel of around 2,000 households. This task is completed.

The BSP Division of Economic Research (DER) may ask for assistance to bring to Manila a US Federal Reserve staff member to help DER staff design the Philippine consumer finance survey.

Task 4.1.1.1b Designing the Philippine Consumer Finance Survey

Expected Performance Milestone: *Acceptance by BSP of a fully tested Consumer Finance Survey (CFS) instrument and a core group trained to plan and conduct a CFS at par with international standards.*

The Bangko Sentral ng Pilipinas (BSP) has requested the EMERGE project through EPRA to provide assistance to fund the travel of Dr. Kennickell, who works for the U.S. Federal Reserve and is an expert on CFS, and this was approved by USAID on 25 Oct 2007. Dr. Kennickell will help build the BSP's capability to undertake the Philippine Consumer Finance Survey. In

particular, Dr. Kennickell will provide technical assistance in developing the design of the CSF, in conducting a pilot survey, and in training a core group of BSP staff on planning, executing and processing a CFS. Dr. Kennickell is expected to take leave from his work to travel to Manila twice during the period from January to March 2007.

Task 4.1.1.2a Philippine Capital Market Reform Agenda—Core Principles

This task was completed in November 2005.

Performance Milestone Achieved: A workshop for the “Financial Market Core Principles and An Enabling Environment for the Capital Market” was held on 24 Oct 05, with the highest-level stakeholders in the financial market participating, including former Governor Buenaventura, current BSP Gov. Tetangco, Deputy Gov. Espenilla, members of the Monetary Board, Finance Secretary Teves, the most senior officers of the Securities and Exchange Commission, the Insurance Commission, and the Philippine Deposit and Insurance Corporation, as well as the presidents/CEOs of the different private sector organizations in the financial market. The presentation was well received with all of the stakeholders manifesting a keen interest in actively participating in defining the capital market reform agenda, which was expected to begin in early 2006.

Task 4.1.1.2b&c Defining the Philippine Capital Market Reform Agenda

BSP Governor Tetangco and Deputy Governor Espenilla indicated their concurrence with a draft SOW for the integration of Modules 2 & 3 at a February 22 meeting with Ramon Clarete. The other two counterparts, Mr. Leonilo Coronel (BAP Executive Director) and Mr. Jing Crisol (President of PDEX) supported this approach as well. EMERGE prepared the terms of reference for this task and met with the private sector Capital Market Development Council (CMDC) officials to resolve the issue about whether this task conflicts with the ADB-funded Capital Market Development Plan, i.e., “the Blueprint.” The CMDC Secretariat has been working to implement and monitor the SEC-supported Blueprint. EMERGE obtained an endorsement from the CMDC for this task. CMDC/Finex encouraged EMERGE to inform SEC Chairperson Fe Banir about it. SEC has pushed for CMDC adoption of the Blueprint. The ADB Blueprint in fact calls for precisely what the CMRA exercise is trying to do, developing a reform agenda for the Philippine financial sector by defining its basic principles, working on the financial tax structure, taking charge of the agenda and fixing responsibility for its advancement.

Even though BSP Governor Amando M. Tetangco, Jr., Bankers Association of the Philippines (BAP) Executive Director Leonilo G. Coronel and PDEX President & COO Cesar B. Crisol all wrote letters to EMERGE requesting the TA to finish the work begun in CMRA1, USAID told EMERGE this task may no longer be implemented due to lack of funds.

Task 4.1.1.2b&c Defining the Philippine Capital Market Reform Agenda (CMRA2)

In light of reduced funding for the EMERGE contract, USAID instructed the EMERGE contractor to focus its work on the capital market reform agenda to specific policy reforms which the BSP officials and private sector organizations who requested this TA and the Capital Market Development Council support. BSP Governor Amando M. Tetangco, Jr., Bankers Association of the Philippines (BAP) Executive Director Leonilo G. Coronel and PDEX President & COO Cesar B. Crisol requested EMERGE to undertake modules two and three of the capital market reform agenda. EMERGE and CMDC focused on the financial sector taxation reform (Task 4.1.1.3(b)), while the BSP officials have asked for assistance in adapting the country’s Basel 2 obligations to Philippine conditions (Task 4.1.2.4(d)).

Task 4.1.1.3b Policy Review of Financial Sector Taxation

Expected Performance Milestone: Acceptance by major stakeholders of a draft bill and draft amendments to administrative issuances to reform financial taxation in the Philippines.

The Zambrano & Gruba Law Office Financial Sector Taxation Team submitted its draft report (from Task 4.1.1.3a) to the Tax Concerns Taskforce (TCT) of the CMDC and incorporated the comments received into their final report. An important result of this study is the identification of a few sources of tax arbitrage as significant tax-related distortions in the capital sector.

EMERGE met with CMDC/FINEX, its main counterpart for this task, on the follow-on activity of this diagnostic assessment. EMERGE agreed with CMDC that it is very important. There is widespread support for the reforms; although someone needs to help the Council identify and analyze the options. EMERGE and CMDC/FINEX agreed to have the final study presented to CMDC officials. The CMDC meeting on July 19, chaired by Finance Secretary Margarito Teves, was well attended. Towards the end of the meeting, Secretary Teves noted that there was unanimity within the Council about the need to carry forward this reform effort and requested EMERGE to support its second phase. The CMDC so resolved. Secretary Teves wrote EMERGE on August 14 formalizing the request.

The objective of this task is to conduct an economic and fiscal analysis of the present tax structure in the financial sector that can serve as basis for developing a tax regime that will promote the development of the Philippine capital market. The Zambrano & Gruba Law Office has been selected to implement the activity. USAID approved this task on October 12, 2006.

Reform Result 4.1.2 Supervisory oversight and regulatory practices improved

Task 4.1.2.1 TA to the Financial Sector Forum (FSF) to harmonize the supervisory framework of the financial market

This task is a place holder for a specific activity EMERGE might develop affecting the members of the Financial Sector Forum (FSF) jointly. The Financial Sector Forum (FSF) was created in 2004 through an MOU between the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), the Insurance Commission (IC) and the Philippine Deposit Insurance Corporation (PDIC). The issues faced by these financial supervisors are cross-cutting in nature, and the FSF provides a regular venue for them to coordinate their efforts and streamline pending issues. The GRP success indicator would be the establishment of a more unified financial governance framework that would apply to all financial market sectors.

EMERGE did not pursue and does not plan to pursue any further discussions with FSF members on this task in the next quarter, in compliance with USAID instructions to EMERGE not to implement some of its 2006 Annual Work Plan tasks in the banking and capital markets sector, due to a reduction of its TA budget.

Task 4.1.2.2 TA to the Securities and Exchange Commission (SEC) to enhance the regulation of the securities market

The SEC indicated it would request TA from EMERGE which would address:

- Risk-based capital framework for SEC-covered institutions and agents;
- Training on risk management for identified stakeholders;
- Rules on the use of uncertificated securities and securities ownership in conjunction with RA 8792 (Electronic Commerce Act)

These reforms would usher in the further development of the securities industry in tandem with evolving international practice and developments. EMERGE planned to coordinate with SEC, particularly its Market Regulation Department, to develop specific assistance requests under this broad policy reform area.

EMERGE did not pursue and does not plan to pursue any further discussions with SEC members on this task in the next quarter, in compliance with USAID instructions to EMERGE not to implement some of its 2006 Annual Work Plan tasks in the banking and capital markets sector, due to a reduction of its TA budget.

Task 4.1.2.3 TA to the Philippine Deposit Insurance Corporation (PDIC) to develop its risk management and regulatory capacities

A draft SOW for improving PDIC's Off-Site Bank Rating Model (OBRM) went through several major revisions. A final SOW was finally approved and EMERGE expected to work with PDIC to identify the resource persons and to submit the proposed TOR to USAID for approval.

On instructions from USAID not to initiate the TA task for PDIC due to reduced funding, EMERGE met with Ms. Mel Villegas, PDIC Senior Vice President, to inform her of this decision. Ms. Villegas was disappointed. It was only a week earlier that she endorsed the TOR of the TA activity for the Commission and submitted a list of possible consultants who could implement the activity.

Task 4.1.2.4a-c TA to the Bangko Sentral ng Pilipinas Supervision and Examination Sector (BSP/SES) to develop and strengthen the financial governance of the banking sector

Performance Milestone Achieved: *The inception report of the EMERGE Real Estate Appraisal consultant was translated into a strategic roadmap with specific timelines. DG Espenilla accepted it and has begun to build a coalition of stakeholders to implement it.*

BSP Deputy Governor (DG) Nestor A. Espenilla, Jr., asked for further assistance so that the initial report of Mark Bates, Real Estate Appraisal consultant, about a framework to guide appraisers in real property valuation, can be translated into a strategic roadmap with specific timelines. Mr. Bates submitted this roadmap in late November 2005 and DG Espenilla accepted it. DG Espenilla believed, however, that many of the essential reforms are beyond the purview of the BSP, and he began to build a coalition of stakeholders to mobilize the roadmap. In response to DG Espenilla's request, EMERGE arranged the meeting between BSP, DTI Bureau of Trade Relations and Consumer Protection (BTRCP) Director Victorino Dimagiba and EMERGE on the implementation of the roadmap towards the harmonization and transparency of procedures for valuing real estate properties in the Philippines. At their request, EMERGE subsequently organized a two-day symposium on real estate appraisal reforms on September 11 and 12, 2006. About 130 participants attended the two-day symposium, which was organized with the participation of Philippine-Australia LAMP II project. The practitioners and private sector stakeholders of the real estate appraisal practice in the Philippines, who are members of the Realty Service Council of the Philippines (RESCOP), made up the bulk of the participants. Besides RESCOP, the representatives of government regulators and agencies and those from the private sector who have a stake in professional real estate appraisal and a transparent, market based valuation of real properties in the country also participated.

The event was designed to provide a venue for identifying and planning critical reforms in the real estate appraisal practice. Its broader objectives included the professionalization of real

estate appraisal and the institutionalization of a transparent, market-based valuation of real properties in the country. EMERGE consultant Mark Bates was one of the three resource speakers in the symposium. Mr. Hamish McDonald, a LAMP consultant, and Ms. Marissa Benitez, the Chairperson of the Philippine Association of Realty Appraisers, Inc. (PARA), were the other two resource speakers.

Philippine government officials who spoke in the opening and closing parts of the proceedings included DTI Undersecretary Zenaida Maglaya, DTI/BTRCP Director Dimagiba, and BSP DG Espenilla.

An action plan for real-estate appraisal reforms was crafted. The participants drafted reform action plans in four major areas of concerns, namely education, licensing and accreditation, market transparency as well as regulation and association enhancement. One highlight of the symposium was that the country's two associations of real estate appraisers agreed to start their negotiations toward a merger into one association.

In the fourth quarter of 2006, EMERGE followed up on the implementation of the action plan. The discussion with selected members of the real estate profession gave rise to a possible follow on activity on crafting with various Philippine government agencies a geographic indicator code (GIC). The EMERGE team planned to meet with Deputy Governor Espenilla to discuss the proposed GIC activity needed by the private sector in order to come up with a database of market transactions of real estate properties.

Task 4.1.2.4d. Determining Appropriate Risk Weights for BSP's Standardized Approach to the Computation of Market Risk Capital Charges (Component A) and Financial Performance Benchmarks by Industry (Component B)

Expected Performance Milestones: 1) *The performance milestone for Component A of the task is the acceptance by BSP of the risk parameters/formulas applicable to Philippine banks which will be used as basis for amending BSP Circular No. 360. The amended Circular is expected to be issued 3 months after acceptance by BSP of the final output.* 2) *The performance milestone for Component B of the task is the acceptance by BSP of the results of the empirical analysis that will be used as financial performance benchmarks both across industries and between SMEs and non-SMEs. These will be used by BSP as basis for coming up with a Memorandum to Banks that will guide them in satisfying the requirements for internal credit risk rating systems under Circular No. 439. This Memorandum is expected to be issued 3 months after acceptance by BSP of the final output.*

In his letter addressed to EMERGE dated 12 October 2006, BSP Governor Amando Tetangco, Jr., requested TA to determine appropriate risk weights for BSP's standardized approach to the computation of market risk capital charges and to establish financial performance benchmarks by industry which can be used by banks in developing internal credit risk rating system consistent with the general norms under the Basel 2 framework. EMERGE prepared a TOR for this task, which has two components: Component A – determination of the appropriate risk weights for BSP's standardized approach to the computation of market risk capital charges; and Component B – establishment of financial performance standards across industries and between SMEs and non-SMEs that can be used by banks in their internal credit risk rating system. The results will be used as inputs in amending BSP Circular Nos. 360 and 439, which set the framework and guidelines for the adoption of Basel 2 in the Philippines. BSP Deputy Governor Espenilla is EMERGE's primary counterpart for this task.

Espenilla has agreed to a provision in the draft TOR stating that BSP shall provide assistance to the Consultant by making available and, if necessary, securing from various sources such as PDex, Bloomberg, LBP, DBP, SBC, etc., data that are needed for the implementation of this task. The proposed consultant for this task is Dr. Noet Ravalo. The TOR for this task was sent to USAID for approval on December 7, 2006. USAID reviewed the TOR and sent some comments back to EMERGE. Lamberte planned to consult with BSP before revising the TOR. If approved, the execution of this task will commence in January 2007.

Task 4.1.2.5 TA to BSP Department of Economic Research (DER) on Inflation Targeting and Monetary Policy

Performance Milestone Achieved: *BSP adopted the recommendation that came out of this task in December 2006, which is to combine the three output gap models BSP developed and estimated, under the tutelage of the EMERGE consultant, with the rates of growth of broad money, nominal wages and oil prices for forecasting inflation. In its Inflation Report: Fourth Quarter 2006 (January 2007), BSP has announced that it will include estimates of output gaps beginning in the first quarter of 2007.*

Continuing TA from Dr. Paul McNelis, covering 4 on-site trips over a period of one year, was structured at the request of BSP and approved by USAID on October 11, 2005. Fr. McNelis made three 2-week trips to Manila in December 2005, March 2006 and August 2006 to work with the staff of the BSP Center for Monetary and Financial Policy. He suggested that the staff start with the open-economy limited participation model used by the Bank of Canada, developed by Scott Hendry, Wai-Ming Ho, and Kevin Moran. He made a final trip to Manila in December 2006 to complete this assignment.

In a meeting with CARANA/Nathan management in October 2006, Mr. Francis Dakila of BSP said that they were very pleased with the assistance provided by EMERGE on developing the output gap model, which the BSP developed with the assistance and guidance of EMERGE consultant, Dr. McNelis. He said it has performed well and therefore can be of great use to the BSP in policy analysis and forecasting.

McNelis arrived on 7 December 2007 and began updating the data series for the models used last August. He made a formal presentation to the Monetary Board at its official meeting, and it accepted the measurements of output gap as indicators of inflation. McNelis subsequently submitted to BSP and EMERGE the final report "Output Gap Estimation for Forecasting Inflation: the Case of the Philippines." This completed Phase 1 of this task.

McNelis and EMERGE recommended the proposed follow-on activity for the development of a dynamic stochastic general equilibrium (DSGE) model of the economy. The output-gap estimates are inputs of the model and were designed as the first phase of a two-part task. The DSGE model is useful for monetary policy formulation. Earlier, BSP Deputy Governor Guinigundo wrote EMERGE requesting this activity. BSP forwarded to EMERGE a proposed TOR for possible follow-on work, which EMERGE planned to submit to USAID for approval in the next quarter.

Task 4.1.2.6 TA to the Insurance Commission (IC) to improve its regulatory and operational efficiency

Insurance Commissioner Evangeline Escobillo confirmed that the automation of the Commission was her most urgent priority. This would involve an audit of the business processes within the Commission and the crafting of a corresponding plan for automating the generation and handling of information within departments of the IC and between the IC and the public/covered institutions. Comm. Escobillo requested that the SOW indicate that the deliverables be

completed by May 2006, as the Commission would need the plan to spend its budget for this purpose. Commissioner Escobillo also requested third party consultants to review the completed drafts for (a) risk-based supervisory framework, (b) uniform chart of accounts and (c) new insurance code. Lastly, there is the request for an awareness campaign (for the public and covered institutions/agents), training workshops (both for IC staff and regulated firms/agents) and in-house monitoring for compliance. EMERGE provided information to the Insurance Commissioner from DBM on how the Commission may tap its internal funds to mobilize a team of experts to design its information system and computerization plan.

As to the other concerns for which the Commissioner had requested EMERGE assistance, such as an expert review of the completed drafts for (a) a risk-based supervisory framework, (b) a uniform chart of accounts and (c) a new insurance code, training workshops and improved capability for monitoring compliance, EMERGE informed the Commissioner that EMERGE may no longer be able to provide the assistance due to the USAID reduction of its budget. EMERGE is, however, continuing to work with the Insurance Commissioner with respect to Task 1.1.1.5.

Task 4.1.2.7 TA to the Department of Finance to enhance its capital market initiatives and its oversights over GOCCs and GFIs

EMERGE responded to the TA requests of the Corporate Affairs and the Domestic Finance Groups of the Department of Finance. These requests included:

- (a) Review the one-percent guarantee fee which the national government charges on GOCC commercial borrowings. The credit and market risk involved is seen to be under-priced. DOF Usec. Singson needed to know by how much and what are its options to correct the problem.
- (b) Assessment of revenue impacts of the “tEE” tax incentive scheme in the proposed Personal Equity and Retirement Account (PERA), which the Senate Committee of Banks proposes.
- (c) Identifying the options for developing the Asset-Back & Mortgage-Back Securities markets.
- (d) Assessment of risks of LGU borrowings.

After receiving instructions from USAID not to implement some of its 2006 Work Plan tasks in the banking and capital markets sector due to a proposed reduction of its TA budget, EMERGE informed DOF Undersecretary Singson, Ms. Abbey Sanglay, Ms. Joji Cruz and Ms. Malou Recente from the Corporate Affairs and the Domestic Finance Groups of the Department of Finance that EMERGE would no longer be able to provide assistance under this task as planned.

Reform Result 4.1.3 World-class support infrastructure developed

Task 4.1.3.1 Defining the Standards and Infrastructure for Cash & Retail Payments

EMERGE assistance was sought by BSP to assess the impact on macro/monetary policy of the repo market and payments coursed through non-mainstream channels such as through telephone companies, as well as the systemic stability/operational risk concerns that are normally raised as a result of institutionalizing such connectivity. Both BSP Gov. Tetangco and DG Espenilla affirmed the importance of this task to them and requested to be updated on its developments.

EMERGE did not pursue and does not plan to pursue any further discussions with BSP members on this task in the next quarter, in compliance with USAID instructions to EMERGE not to

implement some of its 2006 Annual Work Plan tasks in the banking and capital markets sector, due to a reduction of its TA budget.

Reform Objective 4.2 Develop competitive parity across sub-markets

Reform Result 4.2.1. Impediments from the primary markets removed

Task 4.2.1.1 TA to develop local government unit (LGU) financing (formerly Task 3.3.1.1 to help DOF/MDFO develop its LGU PROLEND Manual)

Performance Milestone Achieved: *The Department of Finance (DOF) Municipal Development Fund Office (MDFO) Policy Governing Board formally accepted the draft Program Lending Manual prepared by the EMERGE Team, as well as the CDs and brochure explaining the program and providing application templates for policy-based loans to local government units for infrastructure and other priority projects.*

DOF Undersecretary Roberto Tan sent EMERGE a request for TA to develop guidelines for the Municipal Development Fund Office (MDFO) program lending (PROLEND) to local government units (LGUs). EMERGE sent a request for approval of the technical assistance to USAID in October 2005. After USAID approval of this task on January 9, 2006, EMERGE consultants completed most of the drafting of the PROLEND manual during that quarter. The consultants finalized their report in anticipation of the next MDFO PGB Meeting, which was to take place in July 2006.

EMERGE adjusted its work plan to reflect the suggestion of Ms. Nitz Amatong, a Monetary Board Member who is on the TIERG/EMERGE Policy Advisory Committee (PAC), to set up a mechanism to screen LGU fund-raising activities similar to the NEDA-ICC for national government public investments. It also incorporated NEDA Director General and Socio-Economic Secretary Romulo Neri's comment to undertake an assessment of how LGUs fared after issuing bonds or incurring debt from financial institutions. However, these activities were dropped after USAID requested that EMERGE not implement those activities in the banking and capital markets sector not already started, due to the proposed reduction in its TA budget.

The EMERGE Municipal Development Fund Office (MDFO) PROLEND team submitted the final draft of the MDFO PROLEND Operations Manual to MDFO Executive Director Helena Habulan and EMERGE on 4 Sep 06.

An extended work period, at no cost to the project, was needed to address the comments of the MDFO Policy Governing Board, key MDFO staff and of World Bank consultants to DOF, Dr. Noet Ravalo and Dr. Dante Canlas. The major changes to the Operations Manual consisted of a market base for setting the lending rate as well as a matrix on the levels of difficulty of various policy reforms as a guide for setting the loan ceilings for potential borrowers.

The MDFO PGB said that it planned to launch the PROLEND program and distribute the manual in the next quarter, which will constitute a Performance Milestone for this task.

The MDFO PROLEND Team submitted to the MDFO, for their comment, drafts of the PROLEND handout and brochure. MDFO gave its go-ahead for both the brochure and handbook to be laid out. The Editorial Consultant submitted the laid out drafts of both documents to MDFO for final review and approval. When the final draft and layout design are accepted, the team will submit camera ready materials for printing.

Task 4.2.1.2b TA to develop the rural and micro finance markets

The first specific activity under this task was an evaluation of the Credit Policy Improvement Project (CPIP) (Task 4.2.1.2a), which provided TA to its Philippine counterparts in the National Credit Council (NCC) from November 1996 to February 2006. Dr. Mario Lamberte undertook the task and found that the project was highly successful in meeting its objectives, but outlined several areas that could benefit from additional assistance. He completed a final draft on May 29, 2006. EMERGE subsequently recruited Dr. Lamberte as its Microfinance Task Designer and Manager to design its support to the NCC as well as to other agencies in SME and micro enterprise finance.

Lamberte drew up a concept paper outlining major activities that might be included in the TA for NCC. The proposed major activities are:

- NCC as a knowledge center for the improvement of credit policy environment
- CDA institutional strengthening
- Credit Information System
- Re-assessing the regulatory framework for NGO-MFI
- Addressing the missing market for financial services
- Assessing existing government specialized credit programs for certain sectors of the economy

Given the limited time and budget to implement this task, EMERGE and NCC have agreed to focus first on providing TA to the Cooperative Develop Authority (CDA). There are about 27,000 operating cooperatives out of about 73,000 registered cooperatives, of which 80 percent are cooperatives with savings and credit functions. Most of the members of these cooperatives are small savers and borrowers. NCC's request for TA is aimed at improving the capacity of the CDA to supervise and regulate cooperatives with savings and credit services. The TA is broken down into three separate tasks, which are described below. EMERGE received a letter from DOF Undersecretary and NCC Executive Director Gil S. Beltran requesting such TA.

Dr. Lamberte helped the National Credit Council design and supervise the three separate components of this task, namely: (i) promoting and instituting alternative dispute resolution (ADR) mechanisms for the cooperative sector; (ii) evaluation and assessment of the database for the cooperatives with savings and credit services; and (iii) basic training courses on supervision and regulation of cooperatives with savings and credit services. Lamberte prepared the TORs and USAID approved all three tasks during the last quarter. For (i), Lamberte and Cecille assisted the Selection Committee, composed of NCC, CDA and EMERGE officials, in selecting a consultant to implement the task. USAID approved the hiring of Dr. Geron and Dr. Llanto as consultants for (ii) and Mr. Domo-ong and Mr. Reyes for (iii).

NCC created a Core Group to oversee and monitor all TA for CDA. Mr. Almario, chairman of the Core Group, invited representatives from the ADB Microfinance Development Project (MDP), Japan Fund for Poverty Reduction (JFPR), CHF International and EMERGE to the Core Group's inaugural meeting to discuss NCC's program for upgrading CDA capacity and the activities to be undertaken. To ensure smooth implementation, the NCC Core Group assigned a CDA officer to each task to serve as coordinator and to liaise between the consultants and CDA. Ms. Nonie Hernandez will be the coordinator for the basic training course project, Ms. Caingles for the ADR project and Ms. Hwang for the database project.

Task 4.2.1.2c Promoting and Instituting Alternative Dispute Resolution Mechanisms for the Cooperative Sector

Expected Performance Milestone: CDA's adoption of the framework and implementing guidelines for promoting and instituting alternative dispute resolution mechanisms for the cooperative sector. As the number of intra- and inter-cooperative disputes brought to CDA for resolution declines substantially from its current level of about 500 a year, CDA can then devote more time to its basic responsibility of supervising and regulating cooperatives.

In 2005 alone, CDA had accommodated more than 500 intra-cooperative disputes for mediation and reconciliation, taking away much of its valuable time and resources which could otherwise have been used to supervise and regulate cooperatives. Thus, the general objective of this TA is to support CDA efforts to strengthen its capacity to supervise and regulate cooperatives by downloading a significant portion of its workload on mediation and conciliation of intra-cooperative disputes to the primary, secondary and tertiary cooperative levels. Its specific objectives are:

- to formulate a framework for the use of alternative dispute resolution (ADR) mechanisms for the cooperative sector;
- to develop and institutionalize ADR mechanisms for the cooperative sector; and
- to facilitate the adoption of the ADR mechanisms by the cooperative sector.

NCC and CDA expect a follow-on activity aimed at developing an advocacy course on ADR to enhance the awareness and appreciation of the CDA staff and members of cooperatives on the value of ADR mechanisms for settling intra-cooperative disputes and a Mediation Course for Professional Practice to equip selected members of the primary, secondary and tertiary cooperatives to handle intra-cooperative disputes using ADR mechanisms. An indicative TOR was prepared for this possible follow-on activity.

USAID approved this task on October 6, 2006. After assessing the technical merits of competitive proposals submitted by the CoReGroup, MedNet, COMSTRAT, PDRCI, and Tanggol Kalikasan, the Selection Committee voted to assign this task to the Conflict Resolution Group (CoReGroup) Foundation, which is headed by Ms. Annabelle Abaya. USAID also approved an NCC request for EMERGE funding to cover the cost of participation in the regional consultation workshops of 1 NCC, 1 CDA Board of Administrator and 2 members of the TWG.

CoReGroup conducted consultation workshops on the draft ADR framework in Baguio (about 120 participants), Pampanga (about 150 participants), Makati (about 70 participants) covering cooperatives of all regions in Luzon, Cebu City (about 70 participants), Cagayan de Oro City (about 140 participants) and Davao City (about 100). The results of the workshops prompted the CoReGroup to make major revisions in the framework, which it presented to the TWG for comments. The TWG members reviewed the revised draft ADR framework and suggested further revisions. CoReGroup considered these comments and submitted another revised draft to the TWG on 29 December 2006.

Task 4.2.1.2d Evaluation and Assessment of the Database for the Cooperative Sector with Savings and Credit Services

Expected Performance Milestone: CDA's adoption of the database system that it will use to effectively supervise and regulate cooperatives with savings and credit functions and improved instruments for gathering reliable and consistent set of data for the database system.

USAID approved this task on October 9, 2006. The objective of the task is to improve the capacity of CDA to regularly monitor performance of cooperatives with savings and credit services in the Philippines. The specific objectives are:

- To establish a reliable database for cooperatives with savings and credit services which can be used by CDA for supervising and regulating cooperatives; and
- To develop capacity of CDA to collect reliable and consistent set of data for its database system.

The consultants selected for the task are Dr. Ma. Piedad Geron and Dr. Gilberto Llanto. Both are highly qualified to do the work outlined in the TOR, especially since they already have some experience in working with NCC and CDA.

After reviewing a few samples of the three possible sources of data for the CDA database, namely, the Annual Report (AR), General Information System (GIS), and the Inspection Working Paper (IWP), the consultants found that data contained in the sample IWPs reviewed are suspect. Thus, instead of relying only on the accomplished IWPs to verify the reliability of the data, they suggested that they visit six regional (extension) offices of CDA and 2 cooperatives in each region to verify the process used by regional CDA staff in collecting information for the IWP and to assess the feasibility of gathering some information from the coops needed for the database. The findings can be used as inputs in developing an appropriate data-collection instrument and manual of operation for such instrument. The consultants prepared guide questions for the focus group discussions with CDA cooperative development specialists and primary cooperatives. USAID approved a request by NCC for EMERGE to cover travel-related expenses of 2 consultants, 1 NCC official and 1 CDA staff for their field visits to 6 CDA regional offices and 2 cooperatives in each region.

The preliminary findings gathered from the team's visits to CDA regional offices in Iloilo City, Cebu City and Davao City have confirmed the consultants' suspicion about the unreliability of some of the data supplied by cooperatives. It was also found that the staff's lack of understanding of the purpose for collecting such data using the IWP made them less enthusiastic in gathering reliable data from cooperatives. Moreover, cooperatives spent a considerable amount of time compiling the data needed to accomplish the IWP because their databases are not structured in a manner that can readily supply the needed information. The consultants will consider these finding in designing a new data gathering instrument that will be able to generate data useful for CDA's supervision and examination function.

Task 4.2.1.2e Basic Training Courses on Supervision and Regulation of Cooperatives with Savings and Credit Services

Expected Performance Milestone: Improved CDA staff understanding of their function as supervisory and regulatory agency and institutionalized basic training programs on supervision and regulation of cooperatives with savings and credit functions.

The general objective of this task is to prepare CDA undertake its function of supervising and regulating cooperatives with savings and credit services. The specific objectives are:

- To introduce CDA to the basic elements of and “best practices” in supervision and regulation of cooperatives with savings and credit services; and
- To institutionalize basic training programs on supervision and regulation of cooperatives.

USAID approved this task on November 15, 2006.

Reform Result 4.2.2. Credible and transparent market prices instilled

Task 4.2.2.1 TA to the Philippine Dealing System Holdings Corporation (PDS Group) to institutionalize the fixed income exchange (the Philippine Dealing and Exchange Corporation, or PDEX)

Performance Milestone Achieved: *The final report of ISC was accepted by the counterpart and its technical recommendations will be implemented when public market trading is launched.*

The draft ISC report by consultant Valerie McFarlane was submitted in October 2005, outlining the various issues and recommended solutions for the launch of the Public Market later in the year. The launch of the Public Market trading did not materialize in November as originally envisioned as the policy issue of connectivity to the Bureau of Treasury system was not resolved by BTr officials until late 2005. The public market board was then expected to be launched in two stages, the first in April and the second in July 2006, at which times the technical recommendations of the ISC consultant would be implemented.

PDEX subsequently requested EMERGE to provide third-party experts to evaluate the network infrastructure *vis-à-vis* international best practice and to conduct vulnerability assessment exercises, and EMERGE requested USAID approval to carry this work forward. USAID asked for additional information about this task and EMERGE conducted a briefing and organized a meeting between PDS officials and USAID/OEDG regarding the PDS request. This was a key recommendation of EMERGE consultant. However, EMERGE does not plan to take up this task with PDEX officials any more, in compliance with USAID instructions to EMERGE not to implement some of its 2006 Annual Work Plan tasks in the banking and capital markets sector, due to a reduction of its TA budget.

TASK 2 - Administration of Grants to NGOs and Nongovernmental Research Institutions

With CTO approval, EMERGE resources are to be used to award grants to NGOs and non-governmental research institutions for activities in EMERGE technical areas. Through the Institutional Grant for Policy Development Program (IGPD), a companion activity of EMERGE, USAID/Philippines is embarking on an initiative to develop local capacity in economic liberalization policy analysis and formulation within NGOs and universities. EMERGE grant-making activities are to be complementary to and closely coordinated with these IGPD grantees of the Targeted Intervention for Economic Reform and Governance (TIERG) Program.

The Grants and Special Activities Fund (SAF) Manager developed a grants manual for EMERGE, which was submitted for USAID approval. It was later discovered that the SEGIR/Privatization IQC, under which the EMERGE delivery order was issued, did not authorize its contractors to award grants. As a result, USAID/W had to amend the IQC before EMERGE could be authorized to provide grants. CARANA finally received the amendment to

the SEGIR IQC in October 2005 allowing contractors to award grants. EMERGE revised its Grants Manual based on USAID approval of the manual submitted by CARANA and submitted it for USAID/Philippines for review and acceptance on December 8, 2005. It was approved by USAID on February 17, 2006.

RO 2.1 PACT proposal on Analysis of and Consensus-Building on Trade Negotiation Issues for U-ACT

Expected Performance Milestone: ASEAN Trade Negotiations Framework formulated with substantial inputs from the private business sector and used to determine official Philippine negotiating position. The framework will be presented during the ASEAN Senior Officials meeting in Cebu in December 2006.

USAID approval was granted for EMERGE to award a Simplified Grant to PACT/DLSU on June 19. A succeeding approval was received from USAID on June 27 allowing the hiring of four (4) remaining technical experts. The draft Grant Agreement was sent to the DeLa Salle University (DLSU) Vice President, Dr. Carmelita Quebengco, for her signature on June 28.

The grantee, PACT/DLSU, is to hire industry experts to develop an ASEAN negotiation framework for the private sector for selected eleven industries. The grant agreement was amended to allow direct payments to selected vendors while retaining the reimbursement scheme for the other budget line items.

Task 1.1.1.5 Integrated System of Motor Vehicle Registration, Land Public Transport Franchising, Insurance and Taxation

EMERGE, upon USAID approval on March 20, 2006, awarded a Fixed Obligation Grant (FOG) to the Scientific Research Foundation of the Asian Institute of Management (SRF/AIM) to conduct an assessment and make recommendations on the system of operations of the Land Transportation Office (LTO) and the Land Transportation Franchising and Regulatory Board (LTFRB). The FOG became effective on April 25, 2006. The activity aims to improve the collection of taxes and fees from land transportation franchising, motor vehicle registration and insurance, and to reduce transaction costs and business risks in the registration and insurance of motor vehicles, and franchising and insurance of land transportation. The participating government agencies are the LTO, LTFRB, BIR and the Insurance Commission.

AIM solicited a second grant as a supplement to the 1st grant to AIM/SRF for focus group discussions (FGDs) and a workshop to solicit reactions from various sectors on the result of the team's assessment of the processes involved in motor vehicle registration, land public transport franchising and transport sector taxation. USAID approved the award of the 2nd FOG to the AIM Scientific Research Foundation on July 17. At AIM's request, the grant agreement was amended to reflect a no-cost extension through December 31, 2006.

Task 2.2.1.4 Biotech proposals.

Task 2.2.1.4a Biotech proposal on delayed ripening papaya. This activity aims to conduct field testing of transgenic papaya with delayed ripening trait as required by the DA AO8 before it can go into commercialization. Dr. Evelyn Mae Tecson-Mendoza is the proponent. USAID approved the award to the University of the Philippines Los Banos Foundation, Inc. (UPLBFI) on September 1. The Grant Agreement was finalized and signed by UPLBFI on Oct. 30.

Task 2.2.1.4b Biotech proposal on Accelerating the Development and Commercialization of Papaya Ringspot Virus-Resistant Papayas in the Philippines. The proposed activities will complete the requirements of NCBP to allow succeeding trials under DA AO8. USAID approved

the award to the International Service for the Acquisition of Agri-biotech Applications (ISAAA) on August 24. Dr. Desiree Hautea is the proponent. The Grant Agreement was finalized and signed on October 11. ISAAA submitted its 1st request for reimbursement.

Task 2.2.1.4c Biotech proposal on FSBR Eggplant. This activity is about conducting field testing to develop shoot borer-resistant eggplants in the Philippines from a technology developed by Mahyco in India, who has agreed to extend the technology to the Philippines on selected eggplant varieties. USAID approved the award to the University of the Philippines Los Banos Foundation, Inc. (UPLBFI) on August 24. Dr. Desiree Hautea is the proponent. The Grant Agreement was signed by UPLBFI on October 13.

Task 2.2.1.5 Proposal to enhance DA and BFAD capacity to regulate biopharming/biotech activity in the Philippines.

ISAAA was found to be eligible to receive an EMERGE grant in an on-site pre-award survey of the proponent conducted on June 16, 2006. EMERGE received USAID approval to award the activity to ISAAA on July 19. The Grant Agreement was finalized in August.

Task 2.2.2.3 Investment Climate Improvement Project

Following USAID approval on February 22, 2006, EMERGE awarded a simplified grant to the American Chamber of Commerce (AmCham) of the Philippines to implement activities to identify and communicate to the Philippine government policy and legal reforms that will facilitate new investment and generate more employment.

Task 2.2.2.6b, Mining Manpower Assessment.

This activity is for an assessment of the mining industry manpower market and remuneration practices. EMERGE received an unsolicited proposal from the Chamber of Mines on October 12 to conduct the activity. A grants committee reviewed the proposal on November 8 and found the proposal lacking in clarity and requested information that would merit an acceptance. The Committee's comments were communicated to the Chamber. No response had been received from the Chamber as of end of December.

TASK 3 - Administration of the Special Activities Fund (SAF)

Through the SAF EMERGE is to be able to fund TA and studies for SO2 objectives and other SOs; conferences, workshops, and short-term training, often as a cost-share; study tours and long-term training; commodity procurements for partner organizations; and procurement of skills and services from individuals and institutions. The USAID CTO is responsible for approving use of SAF monies, within the PAC's SAF operating guidelines.

Fiscal Sustainability

Task 1.1.1.4 BIR Tax Rulings.

This activity aims to improve BIR's process of issuing tax rulings consistent with the Philippine tax laws, and also to enhance the quality of guidance provided by the BIR to taxpayers. A lone bidder out of four prospective vendors responded to a competitive selection conducted for the activity in August. EMERGE received USAID approval for the task on September 12. The PO was executed and signed by the vendor on September 15.

Task 1.1.1.6 Assessing Cigarette Tax Options

This activity aims to study and select the most cost-effective system of proof of payment of excise tax from cigarette and tobacco. Only one bid was received for the activity at the closure of the RFP on August 29, from the Engineering and Computer Studies Departments of the DLSU. EMERGE received USAID approval of the activity on September 12. The PO reflecting the consensus of the group was issued to DLSU.

Task 1.1.1.7 Designing a more effective BIR Tax Compliance and Verification Drive (TCVD)

This TA aims to expand the tax base and enhance tax compliance. Also referred to as tax mapping, TCVD involves designing a more effective tax compliance and verification drive capability of the BIR. USAID approved the activity on May 14, and the PO was issued to the selected vendor, the College of Computer Studies and Engineering of DLSU, on June 9. The PO to DLSU was amended to reflect a no-cost extension of the end date of the activity.

Task 1.1.1.8 BIR Training on International Financial Reporting Standards (IFRS)

This activity is about training BIR officers and staff on the IFRS and their tax implications in a way that is consistent with the National Internal Revenue Code. SGV & Co was selected to develop the training modules and conduct the training. The PO, integrating discussions on the deliverables, the working arrangements among BIR, EMERGE and SGV, and copyright issues was finalized and sent to SGV for signature on June 29. The PO was issued to SGV on July 11.

Task 1.2.1.1. DBM Selected Agency Restructuring Plans Improved

This task involves strategic review of the operations and organizations of the executive branch of the government in accordance with EO 366. Reacting to an EMERGE-imposed hard deadline of June 30, 2007, the DBM imposed a hard deadline of November 30, 2006, for those agencies that are yet to submit their rationalization plans. At DAP's request, the 2nd PO was amended to reflect a realignment of funds and a no-cost extension through May 31, 2007.

Task 1.2.2.4 Enhancement of the DBM Website and Budget Transparency

This TA to the DBM aims to help it enhance its website by publishing in it logically organized information regarding government infrastructure and development projects (e.g. physical description, budget appropriation, fund releases, status and results). It is expected to enhance budget execution and accountability by tracking of lump-sum appropriations, specifically on infrastructure and allocations to the LGUs. Then DBM Secretary Neri asked that the activity be put on a fast track. A vendor was selected from a competitive bidding conducted by EMERGE for the activity in September. USAID approved the task on 12 Oct 2006 and the PO was issued to Asiagate on October 26. A Confidentiality Agreement was signed among DBM, the EMERGE Team Leader for Fiscal Sustainability and the vendor, Asiagate, to protect the confidentiality of some DBM information that the signors of the agreement may come across in the course of their work. The PO to Asiagate was amended to delete the ownership clause.

On Trade and Investment

Task 2.1.2.3 Compliance with Revised Kyoto Convention

EMERGE agreed to share the costs of acquiring the services of the Parayno Consulting Group to help prepare the Philippines to be compliant with the Revised Kyoto Convention. Specifically, EMERGE agreed to fund two of the proposed activities in the Parayno proposal, 1) the current situation questionnaire for each of the cited Team of Technical Experts (TTE) together with the

corresponding three levels of analysis, and 2) development of the table of Applicability, Compliance and Non-Compliance, Gap Analysis and Recommended strategy for all the standards and recommendations of the Revised Kyoto Convention. PACT/Philexport will cover the professional fees of the experts under the Parayno Consulting Group. EMERGE received USAID approval of this activity on May 22, 2006. A Purchase Order was issued to the selected vendor, Parayno Consulting Services, and work started on June 19, 2006. A purchase order amendment was executed to reflect a no-cost extension on October 11.

Task 2.1.2.3(b) Institutional capacity building and information, education and communication (IEC) campaign on modern biotechnology

This activity is a continuation of the IEC campaign and capacity building activities for the major stakeholders in the modern biotechnology field. USAID approved an incremental funding for the PO of BCP to accommodate an additional 20% time spent of the team members in conducting the IEC activities. The PO to BCP was amended and signed in December 2006.

Task 2.1.3.1b Streamlining DA SPS Regulations II

This activity builds on the diagnostic study of the different SPS processes in Phase I. EMERGE received USAID approval on July 17, 2006. The PO was issued to the vendor, C. Virata and Associates, in August.

Task 2.1.4.1 Project Design for the Philippine Standards and Compliance Portal (S&CP)

This activity is lodged with the Bureau of Product Standards (BPS) to develop a system to make information on product technical regulations available, accessible and retrievable by the business sector. USAID approval was received on August 3, and the PO was issued to the selected vendor on August 14. BPS and EMERGE agreed to use ECA's vendor, Systema Computer Solutions, Inc, as the same vendor for the development of the BPS portal since two donors are involved in funding the development of the same portal with segregation on the functionalities identified to each donor. Inputs were provided in the finalization of the TOR for Phase 2 to comply with contract rules. Cost details of Phase 2 activities were discussed and were agreed upon with BPS such as the TBT network meetings and workshops, support staff, content development and migration and the portal launch in May 2007. The EMERGE consultant's PO was amended to reflect additional funding for the additional scope involving assistance to resolve the single supplier issue for EMERGE and ECA.

Task 2.1.5.1 WTO e-learning

The TA to the DTI aims to develop the capacity of government and civil society to understand and participate in international trade discussions and negotiations. The subcontract to IATP was amended on March 10, 2006, to reflect specific deliverables and to restructure the payment tranches. USAID approvals were received for the international travel and country clearances of resource persons for the topical workshops scheduled in September and October 2006. IATP submitted its 3rd and 4th tranche deliverables consisting of the documentation of the integrating workshops. The IATP Secretariat is expected to submit to EMERGE its terminal report and evaluation of the program in February 2007.

Task 2.2.1.3(b) Institutional capacity building and information, education and communication (IEC) campaign on modern biotechnology

This activity is a continuation of IEC campaign and capacity building activities for the major stakeholders in the modern biotechnology field. EMERGE received USAID approval on 24 Aug 06. The activity was awarded to the Biotechnology Coalition of the Philippines on August 25.

RR 2.1.1 PCCI WTO Consultations Aug-Sep 2005

Performance Milestones Achieved: *Four consultations were held: (i) Cagayan de Oro, 25-26 Aug 05, 71 participants; (ii) Cebu City, 29-30 Aug 05, 75 participants; (iii) Manila, 8-9 Sep 05, 70 participants; and (iv) Pampanga, 12-13 Sep 05, 75 participants. Membership of the private sector in the trade negotiations policy and consultation structure has been enhanced; a number of private sector personnel has been equipped with the knowledge of WTO and bilateral trade agreements; and the private sector has developed a business sector position based on agreed resolutions from the consultations, prior to the Hong Kong Ministerial Conference.*

RR 2.2.2 Widening of the Localization of the National Export Congress

Expected Performance Milestones: *Government and private sector resources in the regions mobilized to achieve export target s of the Philippine Export Development Plan (PEDP) 2005-07 by ensuring the full implementation of the commitments secured during the National Export Congress (NEC) 2005. Specifically, the project aims to achieve the following:*

- *Mobilize exporting regions and encourage drive towards export performance improvement;*
- *Encourage regions to identify and commit to own export performance target which forms part of the national export performance;*
- *Increase awareness on issues affecting the export performance of the regions;*
- *Identify and ensure implementation of NEC commitments applicable to the region;*
- *Ensure continuous monitoring of the commitments thru systematized process;*
- *Strengthen government-private sector partnerships*

PACT requested EMERGE to share the costs of Export Development Council (EDC) activities to widen the localization of the National Export Congress in ten more regions. The activity will involve conducting dialogues and forums at the local level to translate the national commitments of the National Export Congress into local commitments to meet the targeted exports. The activity was approved by USAID in February 2006, and work was immediately started by the project team led by EDC.

RR 2.2.3 Mining Team

Performance Milestones Achieved: *1) The team's analysis and recommendations were used as inputs to decision-making at the cabinet level, providing better understanding of the implications of key issues and problems affecting the mining sector and resulting in a more positive attitude toward strategic interventions to improve the investment climate and opportunities in mining. One result of this attitude was the more balanced approach in handling the recent Lafayette mining disaster, where the problems encountered were contained and addressed without ordering a total closure of the mine. It was a test case of reviewing the legal environment, the compliance with standards, and the imposition of corrective measures or sanctions that improved the operations of the mining industry while addressing the concerns of the community and social-action groups. 2) The mining team's recommendations has also led to the formation of the Angelo-King Extractive Energy and Mineral Mining Advocacy and Advisory Network as a 3rd Party Accreditor, its role and scope being determined by the Secretaries of NEDA, DTI and DENR.*

RR 2.2.3 Land Reclamation

Performance Milestones Achieved: *The consultant's advice and recommendations were instrumental in resolving legal impediments and conflicts affecting the construction of the Roxas Blvd.-Cavite Highway, which is part of the priority program to decongest Metro Manila.*

On Infrastructure

Task 3.2.2.2 Assisting the Commission for Information and Communications Technology in the Development of a 5-Year Strategic Roadmap for the ICT Sector (2006-2010)

This TA to the CICT involves packaging the Strategic Roadmap into a user friendly print document with a corresponding CD version, and designing the CICT Roadmap website. Because of the uncertainty of the total costs that will be incurred in developing the print and website for the Roadmap, EMERGE planned to issue several purchase orders as costs become known. The first purchase order covering the development of a concept, design and a slogan for the Roadmap was accepted and signed by the competitively selected vendor, Think Ideas, Inc., on July 31, 2006. Think Ideas started work the first week of August. A 2nd PO was issued to Think Ideas, Inc. on October 27 covering the development of the final print master of the roadmap. A 3rd PO was issued to Think Ideas for printing the CICT roadmap on November 7.

Conferences, Seminars and Workshops

RR 1.1.1 DOF Finance Planning Workshop 7-8 July 2005

Performance Milestone Achieved: *The DOF developed its midterm Legislative Agenda (2006 to 2010).*

RR 2.1.1 IFEX Symposium – PhilExport/DTI, 11-12 May 2005

Performance Milestone Achieved: *The symposium was designed to educate the food sector and government agencies concerned about US food standards and regulations and to familiarize the standards and regulations officials with the different kind of exportable Philippine food through IFEX Philippines. - Reports suggest that questions raised by the attendees were indicative of each questioner's concern and were clearly addressed by speakers, and that government agencies are now committed to decreasing miscommunication of the legal requirements that must be met to successfully export food products to the US.*

RR 2.1.1 Philippine Franchise Conference 14-17 July 2005

Performance Milestone Achieved: *After this conference a moderate estimate of 500 franchise enthusiasts now have clearer appreciation of opportunities and threats for market entry of franchising (i.e., export of services) into China and Europe.*

RR 2.1.1 The 14th Philippine International Franchise Conference and Expo (PIFCE)

EMERGE was requested by the Philippine Franchise Association through PhilExport to share in the costs of this conference by funding the travel costs of a speaker. The activity, to be held on July 12-16, 2006, was approved by USAID on June 19.

RR 2.2.1 APEC Conference on Biosafety 16-18 Jan 2006

Performance Milestone Achieved: *About 69 participants from 14 countries in APEC attended the conference. It highlighted the biosafety regulations in the Philippines.*

RR 2.2.2 IT Outsourcing Conference “e-Services Philippines” 16-17 Feb 2006

Performance Milestone Achieved: *This conference helped establish e-Services Philippines as an international congregation of local and foreign players for IT Outsourcing, by boosting the credibility of e-Services with the presence of Mr. Nigel Roxburgh of the National Outsourcing Association (NOA) for opportunities in UK and Europe, Sean Carroll of the Medical Transcription Industry Association (MTIA) in the US, and Avinash Vashistha for collaboration opportunities in India. Some 450 people attended the CEO Forum, 1800 visited the exhibits, and subsequently almost US\$23.5 million in new contracts were reportedly under negotiation by exhibitors.*

RR 2.1.1 The 14th Philippine International Franchise Conference and Expo (PIFCE) July 12-16, 2006

This was an event for franchise stakeholders to share knowledge, updates and trends in franchising. EMERGE shared in the cost of conducting the Philippine Franchise Association’s annual conference on July 12-16, 2006, at the Westin Philippine Plaza.

RR 2.1.1 The IFEX Symposium 15 Aug 06

The symposium was held on August 15 at the Philippine Trade Training Center and served as a venue to educate the food sector and government agencies concerned about food standards and regulations in the UK and EU markets. EMERGE received USAID approval on July 21 to share in the travel costs of Mr. Nick Orledge, the invited speaker for the event.

RR 2.1.4 Pacific Accreditation Corp. 21 Sep-1 Oct 06

EMERGE was requested to share in the travel costs of Messrs. Steve Keeling and Arve Thendrup to conduct a peer evaluation of Philippine accreditation schemes. USAID provided approval of the activity on September 1.

RR 2.2.2 PCCI Anti-Corruption Workshop 23 Aug 06

The Philippine Chamber of Commerce and Industry (PCCI) conducted this workshop to consider the causes and sources of corruption in the private sector and government bureaucracy and recommended reform measures to minimize them. EMERGE shared in funding the logistics cost of the workshop.

RR 2.2.2 Foreign Direct Investment Forum 5 Oct 06

This event was organized by AmCham and will be held on October 5 at the Intercon Hotel. The forum will be a venue for developing and prioritizing recommendations for needed reforms to attract greater FDI. EMERGE was requested to subsidize part of the logistics cost of the forum. USAID approval of the activity was received on September 1.

RR 2.2.2 National Competitiveness Summit 28 Sep 06

This event aims to develop measures to improve the Philippines’ standing in the 2006 World Competitiveness Reports of the World Economic Forum and World Competitiveness Yearbook. EMERGE will share in the logistics costs. The summit, to be held in the Presidential Palace, Malacañang, was postponed until the first week of October due to Typhoon Milenyo.

Banking and Capital Markets

Task 4.1.1.3b Financial Taxation System Analysis and Design II

Phase II activities focus on the economic and financial rationale behind the tax structure identified in Phase I. EMERGE received USAID approval of the activity on November 6, 2006.

The PO to Zambrano and Gruba Law Office was finalized and sent for Gruba's acceptance on November 24.

Task 4.2.1.2c. Rural and Microfinance Market Development – NCC support

This activity is about the development of alternative dispute resolution (ADR) mechanisms at the primary, secondary and tertiary cooperative levels to decongest dispute resolutions at the national level. The CoReGroup was selected from among the five bidders by a selection committee. The PO was issued to the CoReGroup on November 2, 2006.

Conferences, Seminars and Workshops

Task 4.1.1.1b US Federal Reserve System TA and workshop

The Bangko Sentral ng Pilipinas (BSP) will conduct workshops on a Consumer Finance Survey (CFS) during January through March 2007. EMERGE was requested by EPRA to share in the travel cost of a US expert to be a resource person for the activity, and in the logistics costs of conducting training for a BSP core staff. EMERGE received USAID approval of the activity on October 25.

Annual Meeting of the Philippine Economic Society (PES).

The event on November 21-22, 2006, provided a forum for participants to discuss current economic situation in the Philippines as well as in the global economy. EMERGE shared with PES and other sponsors in the logistics cost of conducting the annual meeting.

TASK 4 - SO2 Monitoring, Assessment, Reporting

EMERGE is responsible for consistently monitoring and assessing progress in meeting USAID SO2 performance indicators. It is to regularly collect and analyze data on indicators and make formal semi-annual appraisals of progress in meeting SO2 targets. As the USAID SO2 team requires, EMERGE is also to prepare special reports, case studies, success stories, presentations and audio-visual materials to better analyze and communicate the state of reform issues in the Policy Agenda of USAID/Philippines-EMERGE. SO2 monitoring tasks include understanding the SO2 team's requirements and monitoring system; organizing a program for routine SO2 performance indicator monitoring; and responding to regular and special requests for SO2 performance analyses.

The original SO2 Monitoring Manager resigned for a higher paid, full-time job at the end of November 2005. EMERGE interviewed several prospective candidates to replace him and made a selection, and USAID approved Ms. Rowena Vicente for this position on 17 July 2006.

After looking into the broad indicators of policy impact for the SO2 results framework, what needs to be done next quarter is to see how EMERGE TA Work contributes to success in its reform theme areas. Quantitative indicators will be reviewed and updated to inform stakeholders of EMERGE accomplishments.

Winnie Vicente began documenting the impact of EMERGE accomplishments that already have a measurable impact on the economy. The others which either have long gestation periods or are difficult to measure must wait for a more favorable time.

TASK 5 - Public Information and Consultations

EMERGE public information activities have two purposes: to support partners and counterparts with their own information dissemination and public advocacy and to establish EMERGE's transparency. To support partners EMERGE is to assist with media strategies and materials and can help organize technical conferences on reform issues. To support partners and to establish transparency, EMERGE set up a website to inform the reform community and the general public about project goals and activities and current reform issues. It is to be periodically updated with latest news and features from various projects of EMERGE.

3) (b) Current Buy-Ins: The EMERGE Delivery Order does not authorize or contemplate buy-ins, and there are no other delivery orders thereunder outstanding or contemplated.

3) (c) Subcontracting Activities During the Quarter: No new subcontracting activities were initiated during this quarter.

4) Performance during the Quarter:

Administrative Tasks

EMERGE submitted the quarterly report for the preceding quarter on January 30, 2007. A PAC meeting was held on 19 January 2007. CARANA requested USAID/ORP approval of a revised budget for the EMERGE Project on January 12, 2007, to move \$257,874 from Grants to SAF and \$93,248 from other budget subcategories to LOE, plus a small adjustment in Allowances.

TASK 1 - Policy Analysis and Technical Assistance

Fiscal Sustainability-- Specific Tasks

Task 1.1.1.1 Improved One Time Tax Transactions (ONETTT) System

The BIR-Quality Assurance Department (QAD) and eKonek agreed to work closely and complete the testing and the required messages for the final ONET³ prototype by April 4. The testing and development of the final prototype and preparation for its soft launch made some progress, particularly in the testing of the two-dimensional (2D) barcode solution component. The problem on the printing of the barcode was solved and the barcode reading test with Symbol Sciences was successfully completed. On the part of BIR, its ONET³ team conducted a workshop with officers and staff of RDO 39 (South Quezon City) on the application program's test scenarios. It was noted that the functional design of the ONET³ application program does not include details of payment for the Certification Authorizing Registration, thereby possibly requiring another change request in the application program.

The BIR ONET³ team met with the Legal Service for the preparation of the Operations Memorandum on the pilot implementation of the ONET³ application in RDO 39 and the Register of Deeds (RD) of Quezon City. The preparation of the revenue memorandum order (RMO) for the eventual use of the application bureau-wide also commenced with a meeting with representatives of the Assessment Service, Asset Valuation Division, Assessment Programs Division, and Large Taxpayer Audit and Investigation Division I.

Revisions in the work schedule for the quarter were repeatedly made due to user requests for changes on the part of BIR and turnovers in the ONET³ programmer(s) on the part of eKonek.

The BIR-ONET³ project is expected to address only around 10 percent of the estimated leakage in capital gains tax collection, which is estimated at PhP 2 billion a year. Strengthening the linkage between BIR and the RD and a regular reconciliation of the databases of the two agencies are thus recommended. An alternative is to strengthen tax audit through the use of third party information from the treasurer's office of the local governments, which maintains records of all transfer of certificate of titles (TCTs) in their jurisdictions.

Task 1.1.1.4 Tax rulings aligned with tax code, laws and regulations to improve tax collection and streamlining the tax rulings process at BIR

First Component: Systems Study of the Tax Rulings Process. The EMERGE consultants on enhancing the BIR tax ruling process completed their final report containing: (1) the documentation of the present tax ruling process, (2) diagnosis of its problems and weaknesses,

(3) stakeholders' needs assessment, and (4) detailed design, specification, and requirements of the proposed automated tax ruling system. The BIR management committee received the proposed automated tax ruling system positively and proceeded to study its budgetary requirements. BIR subsequently included the automation of the tax ruling system in the list of projects to be funded under the Development Policy Loan that the Philippine government is negotiating with the World Bank. Mr. John Crotty, IMF Fiscal Advisor, also suggested the possibility of getting funding support from AusAid.

Second Component: Review of Tax Rulings. The BIR Mancom planned to issue a revenue memorandum circular to correct illegal tax rulings based on the findings of the inter-agency committee convened by the Department of Finance (DOF) in 2002 for the purpose of reviewing tax rulings for consistency with the law. EMERGE technical assistance in this area was deemed unnecessary by the BIR Mancom.

Task 1.1.1.5 Establishing integrated systems of motor vehicle registration, land public transport franchising, insurance and taxation

Performance Milestone Achieved: *An LTO office order has been issued to implement the proposed processes for transaction time monitoring and reporting and classifying process issues based on frequency and urgency.*

The original LTO manual was drafted in 1997; former LTO Chief Anneli Lontoc designated a study group to update it under the guidance of the EMERGE-AIM project team.

The project team submitted the Final Report for this task. It consists of (1) Abstract and Integrative Report, (2) Motor Vehicle Registration Report, (3) Draft of Updated Land Transportation Office (LTO) Operations Manual, (4) Land Transport Franchising Report, (5) Draft Land Transportation Franchising and Regulatory Board (LTFRB) Guidebook, and (6) Risk Assessment of Taxation in Motor Vehicle Registration and Land Transport Franchising.

The proposed inter-agency linkage that will facilitate timely information sharing and verification and ultimately, improved tax collection, is hinged on three points: (1) an Insurance Commission (IC)-LTO linkage for compliance monitoring of compulsory third party liability (CTPL) insurance coverage, (2) an LTFRB-LTO linkage for franchise verification and detection of *colorum* vehicles, and (3) an LTFRB-BIR linkage for proper tax assessment of public transport operators. The signing of the memorandums of agreement (MOAs) to effect the above linkages was postponed as the new agency heads, namely LTO Chief Reynaldo Berroya and LTFRB Chair Thompson Lantion, requested for more time to study them. To date, only BIR Commissioner Jose Mario Buñag has affixed his signature on the draft MOAs.

A fourth point of integration, that of a unified chart of accounts to simplify the submission and checking of annual reports by transport operators, was deemed of low priority by the new LTFRB management. While initial drafts were prepared by the project team, their validation and subsequent improvement and finalization were hampered by the lack of cooperation from LTFRB counterparts. The preparation of the unified chart of accounts was thus terminated by the project team.

A positive offshoot of this task is the development of a compulsory insurance database clearing system to be solely owned and maintained by the Insurance Commission (IC).

Task 1.1.1.5c Insurance Commission Database

Performance Milestone Achieved: IC Evangeline Escobillo approved the database design and the project's final report. IC subsequently commenced with the implementation phase. It has contracted consultants for the development of the database and applications for the validation/clearing system out of its own budget. The plan is to implement the CTPL solution in July 2007.

The EMERGE consultants tasked for the high-level design of the IC database completed their work within the quarter. Department of Transportation and Communication (DOTC) Secretary Leandro Mendoza supported the proposed solution to the CTPL problem. Land Transportation Office (LTO) Chief Reynaldo Beroya agreed to support the CTPL insurance solution. The National Computer Center (NCC) likewise agreed with the design of the proposed IC database. The high-level design was also presented to Land Bank, a prospective partner agency for handling premium payments.

A meeting was held to finalize the memorandum of agreement (MOA) between IC and LBP on the use of electronic banking services for the payment of premium for the CTPL insurance, funds monitoring, and reports generation.

Other meetings were held on the details of the draft memorandum of agreement (MOA) among the IC, LTO and BIR on the compulsory third party liability (CTPL) clearing system. The accompanying application, which is 70-percent complete, will (1) electronically link IC and LTO databases to facilitate data reconciliation, and (2) automate the validation of CTPL insurance coverage prior to motor vehicle registration and replace the existing validation system being implemented by DTech, Inc.

Task 1.1.1.6 Assessing options for implementing the proof of payment provision in the tax code for excise taxes and updating/consolidating regulations on cigarettes

First Component: Industry and Systems Study. The project consulting team from the Center for Operations Research and Management Science of De La Salle University submitted its first progress report. The report consisted of two major sections: 1) A Profile of the Philippine Cigarette Industry and 2) An Estimate of Potential Excise Tax Revenues, Actual Tax Collections, and Leakage in the Philippine Cigarette Industry. An overall conclusion derived from the research is that the actual collection of cigarette excise tax is reasonably within the range of values of potential collection. The BIR would stand to gain a substantial amount in the excise tax collection if prices of certain cigarette brands would be adjusted for inflation.

It was suggested to the consultants to consider estimating cigarette production based on the volume of raw materials used in cigarette production. Moreover, it was agreed that the consultants will come up with the procedures and templates for analysis and that the BIR staff will do the actual analysis, since the consultants were not granted access to tax return information.

Other accomplishments of the DLSU team included completion of process map of the activities performed by the Revenue Officers on Premise (ROOP); completion of risk analysis on the potential failures (leakage) in the receiving, storage, and manufacturing of cigarettes; and a comparative analysis on the various technologies for establishing proof of payment for cigarette excise tax. The team is expected to submit its final report by the middle of May 2007.

Second Component: Codification of Revenue Regulations and Issuances on the Cigarette and Tobacco Excise Tax. As requested, EMERGE contracted a research assistant to help the BIR task force on cigarette excise tax codification in encoding and organizing the relevant provisions of the various cigarette tax revenue regulations according to the format prescribed by Mr. Conrado Item (head of the task force). The work was completed and submitted to Mr. Item in March 2007.

Task 1.1.1.7 Designing a more effective tax compliance and verification drive (TCVD)

First Phase: Reengineering of TCVD Processes. EMERGE TCVD consultants presented to the BIR Management Committee and later to the Regional Directors and Revenue District Officers in Metro Manila the completed design of the e-TCVD process and the proposed amendments to the existing Revenue Memorandum Order (RMO) on tax mapping. The consultants also presented a draft Guide Book for revenue officers and establishments defining their respective rights and obligations in the tax mapping activity and conducted a demonstration of the eTCVD application program using both mobile phones and web portal. The meetings made the BIR officials appreciate the proposed changes and allowed issues to be discussed, thereby, guiding the refinement in the proposed TCVD process. Deputy Commissioner Lilian Hefti was tasked to finalize the draft RMO to enable the proposed improvements in the tax mapping procedures. The latest draft of the RMO incorporating the proposed enhancements of the various stakeholders has been submitted to Deputy Commissioner Hefti and Assistant Commissioner Aida Simborio.

Second Phase: TCVD Automation (e-TCVD). The eTCVD application is already running in the BIR Development Server and is linked to the BIR Integrated Taxpayer System (ITS) database. The application has been tested both locally (within BIR using internet connection) and remotely using a public internet protocol for both mobile and desktop application. The Functional Specification Requirements (FSR) has been approved by Information Systems Group (ISG) and is awaiting the approval of the Operations Group (OG) of BIR. The Technical Specification Requirement has also been submitted and awaiting the approval of ISG. The Quality Assurance Testing by the Quality Assurance Division (QAD) is expected to be completed by the by the first week of April. Final Acceptance by the QAD will trigger the field testing and soft launch of the eTCVD application.

Task 1.1.1.8 Upgrading tax accounting practices of the BIR to International Financial Reporting Standards (IFRS)

Phase 2. Bureau-Wide Training. To systematically tackle the IFRS tax-related issues, the BIR team was divided into groups. Each group was assigned specific topic/s to study and formulate a position on. Reporting on group outputs was done in plenary with DCIR Lilian Hefti presiding and the SGV team acting as discussants. At the end of a series of reporting sessions on March 3, the resolution of all IFRS tax-related issues was finalized. This prompted the start of the preparation of the manual for training selected examiners, who would later be themselves trainers in a bureau-wide training on IFRS. At quarter's end, the manual is still being prepared.

The agreed timelines for training are as follows:

April 23 & 24 (Mon & Tues)	Final presentation of the training materials to the BIR groups
May 7 to 11 (Mon to Fri)	Training for the first batch
May 16 to 22 (Wed to Tue)	Training for the second batch

Task 1.1.2.2b Installing Office-Level Performance Management System (PMS) at the BIR Regional Offices

The team reviewed the status of the deliverables of the PMS-Second Wave, namely: (1) rewards framework and the draft of an enabling RMO, (2) office performance contracts, (3) the Office PMS Guidebook, and (4) the Performance Management Information System (PMIS). The team reviewed the component outputs of each deliverable and sought management decisions on turnover issues. A meeting was also held among the EMERGE-PMS Second Wave and Goal Allocation consultants, the BIR Management Committee (ManCom) and the heads of the BIR offices involved in the development and installation of PMS. The meeting helped clarify expectations and work directions.

The legal advisor from the project team worked with the BIR committee on rewards on the draft RMO on the rewards framework. Meanwhile, the draft RMO on PMS was revised to conform to the agreements arrived at with PPS.

The BIR ManCom approved the proposed offices' scorecards for the Operations Group (OG) and commented on the simulation results on the performance scorecards. The project team will incorporate these comments in refining the scorecard criteria and weighting system. It anticipates completion of all contracts by April 2007. The outline for the Guidebook has also been finalized and writing is underway.

The PMIS was revised to incorporate access of the owners to performance data and additional features from requests of the Information Systems Group (ISG) and the Policy and Planning Service (PPS). For fuller appreciation of BIR officials and staff, a comprehensive test was conducted on the enhanced version of the PMIS and a rewards simulation was carried out using human resource department data based on official *plantilla* items. The design and process issues over the PMIS were subsequently resolved.

Meanwhile, the coaching session(s) on the simulation exercise for the PPS as the office PMS process owner continued. In the project team's above mentioned meetings with BIR officials, the latter also committed to finalizing and issuing the enabling RMOs for the implementation of PMS.

Task 1.1.2.3 Designing a system for rationally allocating the annual revenue targets of the Bureau of Internal Revenue to its district, officials and employees

The goal allocation task started in the latter half of January 2007. The goal allocation design has two components: (i) an interim goal allocation (for CY2007) and (ii) a long-term goal allocation for (CY2008 and beyond), both covering revenue regions and individuals.

The consultants prepared a baseline report containing: (i) a documentation of past and current goal allocation practices to revenue regions, (ii) an inventory of available and useful data on regional collection targets and performance/effort, and (iii) an analysis of past collection performance of revenue regions vis-à-vis their collection targets. The baseline report was discussed with and submitted to the BIR-Statistics Division and EMERGE. A framework for goal allocation to revenue regions and district offices and an alternative allocation formula with simulation results were presented to the Statistics Division and the BIR management committee. The proposed framework and formula generated interest but the ManCom decided to stick to the

existing goal allocation practice since there was not enough time to consider major changes and effectively communicate them to the various stakeholders.

The consultants conducted focus group discussions (FGDs) on individual goal allocation with selected officials and employees of revenue regions and district offices in Metro Manila and nearby provinces. A report of the FGDs' results and findings was submitted to DCIR Lilian Hefti of the Operations Group and ACIR Marietta Lorenzo of the Planning and Policy Staff. In a joint meeting of the goal allocation and PMS consultants with the BIR ManCom on March 27, it was recommended that in cases where it is impractical or not feasible to assign individual collection targets, a common or shared collection target, i.e., the office or unit collection target, may be considered. Moreover, the office or unit revenue collection performance may be supplemented by non-financial performance indicators or metrics under the PMS to determine whether an individual should be subject to attrition.

The consultants started preparing its second report on the development of the interim goal allocation system for revenue regions, district offices, and individuals. They also started looking into the data requirements for a long-term goal allocation system that is more attuned to the provisions of the Attrition Law and its Implementing Rules and Regulations.

Task 1.2.1.1 Improving Agencies' Re-structuring Plans under EO 366

The preparation of all agency restructuring plans follows this sequence: briefings on Executive Order 366, submission of sector/sub-sector profiles by sector experts, consideration of agency rationalization plans by the Department of Budget and Management (DBM) Composite Team, and presentation of agency rationalization plans to the Executive Committee.

As of March 30, 2007, the status of submissions of agency rationalization plans was as follows:

STATUS	DEPARTMENT	OTHER EXECUTIVE OFFICES / AGENCIES	GOCCs	TOTAL	
				NO.	%
A. Plans Submitted to DBM	19	28	33	80	72%
B. Not yet submitted to DBM	2	1	28	31	28%
TOTAL	21	29	61²	111	100%

Of the 80 agency rationalization plans submitted, 14 have been approved. Sixteen sector and sub-sector experts were on board as of March and 12 of them have submitted their reports to the Development Academy of the Philippines (DAP) and DBM. DAP is awaiting the submission of reports for the environment, finance, agriculture and land reform, and labor and employment sectors.

In March, the DBM Composite Team spent more time reviewing the submitted rationalization plans of the departments/agencies. DBM also met with various government agencies and institutions to resolve issues related to the rationalization plans. These government bodies and

² The Development Bank of the Philippines (DBP) is exempted from Program, thus the drop from 62 to 61.

agencies included the Bureau of Customs, Armed Forces of the Philippines, Philippine Health Insurance Corporation, Department of Labor and Employment, Department of Agrarian Reform, Department of Environment and Natural Resources, Bases Conversion Development Authority, National Food Authority, National Tobacco Administration, Philippine Atmospheric, Geophysical and Astronomical Services Administration, Presidential Management Staff, Department of National Defense, Department of Foreign Affairs, and Department of Education.

DAP's Progress Report and Billing for this TA were reviewed and evaluated. Individual/component reports were found to be compliant with the basic TOR requirements except for some minor issues that needed clarification, the submission of the workshop materials, and full documentation of the Certification Program pertaining to the Organizational Development Expert's Outputs. The reports were also issued Certificates of Acceptance by the DBM.

Undersecretary Laura Pascua pointed out the government rationalization plan's intent is not so much to generate savings for the government as to effect a strategic shift in resource allocation and improve efficiency in delivery of vital government services. She believed this was evident in the approved agency rationalization plans.

Task 1.2.2.2 Exploring the feasibility of adapting the Performance Assessment Rating Tool (PART) of the OMB/USG to the Philippines

In order to provide a useful context for the presentation of PART concepts and features, Mr. Pfeiffer familiarized himself with the Philippine budget process and current public expenditure reforms, particularly Organizational Performance Indicators Framework (OPIF). This was done through discussions with EMERGE and DBM counterparts and AusAid representatives. AusAid is providing assistance to DBM in the development of OPIF.

Mr. Pfeiffer then conducted two formal presentations/orientation sessions on PART to DBM officials and staff. He also discussed OMB's implementation of public expenditure programs. He gave detailed answers to questions raised during these sessions and in informal conversations with participants. In addition, DBM staff showed keen interest in the OMB organizational structure; Mr. Pfeiffer thus included this in his presentations. Mr. Pfeiffer had a debriefing session with USAID at the end of his engagement.

Overall, Undersecretary Pascua noted that DBM could start adopting certain PART concepts in its business processes, such as project evaluation and review of agency proposals. Thereafter, PART concepts and practices could be formally incorporated in OPIF and the Medium-Term Expenditure Framework (MTEF).

Task 1.2.2.3b Working Model to Predict Cash Inflows Installed at DBM

Undersecretary Laura Pascua informed EMERGE she was no longer pursuing her request to engage the services of Mr. Jem Armovit in the installation of his revenue forecasting model and training of DBM's technical staff on its use. Instead, Undersecretary Pascua requested EMERGE financial assistance for the purchase of the EVIEWS software to run the model. However, she later withdrew that request due to reconsideration of DBM Fiscal Planning Bureau on the usefulness of the revenue forecasting model to DBM, in the light of comments from the National Economic and Development Authority and the Department of Finance. Thus, EMERGE has shelved this follow-on TA to DBM on revenue forecasting.

Task 1.2.2.4 Institutionalizing DBM's capability to publish timely information on its website on appropriations and budget releases of infrastructure and development projects of legislators

The systems audit phase of this task concluded with the acceptance of the diagnostic report. The report made suggestions on website content, described the requirements of the proposed applications, and discussed issues raised by stakeholders. Stakeholders included representatives of the leagues of local government officials, non-government organizations interested in monitoring public expenditures, and the general public.

Focus was subsequently given to resolving issues on the system requirements specifications (SRS) forwarded by concerned bureaus and the functional system design (FSD) documents sign-off. The draft FSDs were submitted on time for review and validation in mid-February to the bureaus. These were later returned to the consulting group, Asiagate, with specifications on website content. The signed-off FSD documents were received in mid-March, prompting the formal start of work on the technical specifications design (TSD) document. Design considerations were studied and use-case scenarios were established. The TSD document was submitted on March 26 for sign-off no later than the second week of April.

It is noted that major technical design concerns on the overall system design revolved around project/program realignments that would in turn need the appropriate documentation equivalent to DBM's existing manual system, anticipation of future reportorial requirements to be required by DBM, and concerns on system administration design identified by the DBM Budget Information Systems Service (BISS).

Preparatory work for the website/content management system (CMS) also commenced during the quarter. Various layouts were submitted for review by DBM. Site maps for Central Office and Regional Offices and integrated features, such as a search function, were finalized. These will input into the template specifications document for the website/CMS, which will be worked on in April.

Expanded Trade and Investment-- Specific Tasks

Task 2.1.1.1 Assessment of the economic impact of trade liberalization

The preparation of the TOR for this task did not push through. At the instruction of USAID, EMERGE participated during the fourth quarter of 2006 in the series of donors' roundtable discussions with the academe and researchers organized by GTZ on how best to respond to the TA request of the Tariff Commission. In these meetings, the group agreed (i) on the questions and issues to be addressed by the impact assessment; (ii) that industry studies are preferred over computable general equilibrium (CGE) analysis; and (iii) that the core methodology for conducting the industry studies should be developed first, prior to conducting the studies. Given the remaining time left for EMERGE to close its technical activities by the end of June 2007, EMERGE is aware that the TA that it can deliver to Tariff Commission would be limited to just the development of the methodology, with the hope that GTZ or the other donors would later support the conduct of the industry studies using the developed methodology. However, USAID preferred that the TA should demonstrate a more tangible output. That is, apart from developing the appropriate methodology for the industry studies, there should be one or two industry studies demonstrating the said methodology. EMERGE, however, finds this no longer feasible, given the time constraint.

The above approach preferred by USAID for implementing this task was the same approach that EMERGE wanted to undertake as early as August 2006. At that time, EMERGE, in consultation with Tariff Commission officials, planned to implement the TA in two phases: Phase 1 would have been a concept paper that would (i) define the issues and questions; and (ii) determine the methodology and approaches of the study. Phase 2 would be the conduct of the study itself. Implementation of the two phases was then well within the schedule of EMERGE. But this planned approach was derailed by the meetings and roundtable discussions organized by GTZ, until there was no longer time to implement the TA.

EMERGE met with Tariff Commission Chairman Edgardo Abon and his senior staff and informed him of USAID's decision. This put an end to this task.

Task 2.1.2.3 Assessing the Applicability and Compliance Gaps of the Philippines to the Revised Kyoto Convention (RKC)

Performance Milestone Achieved: Private sector endorsement of accession and compliance to the Revised Kyoto Convention (RKC) to President Arroyo and adoption by Bureau of Customs (BOC) Commissioner Morales of the National Strategy for the Philippine accession on February 5, 2007.

Two major activities were held this quarter. *First*, the RKC Pre-Summit was held on 30 January 2007 at the Traders Hotel. It was attended by around 62 people from the government and business sectors, in addition to Bureau of Customs (BOC) officials. The primary objectives of the pre-summit were: (i) to validate the findings and recommendations of the Parayno team, EMERGE consultants who conducted the applicability and gap analysis on the RKC; and (ii) to draft a resolution addressed to President Gloria Macapagal-Arroyo, urging her to approve the accession of the Philippines to the RKC at the earliest possible time. The Parayano team was able to obtain a consensus from the BOC and the participants that the Philippines should accede and comply with the Revised Kyoto Convention. There was also an agreement on the adoption of a National Strategy for the Philippine accession and compliance to the RKC, and an agreement to endorse the same to President Gloria Macapagal-Arroyo.

Second, the Summit for the Philippine National Strategy for Compliance with the RKC was held on February 5, 2007. It was a successful summit because the private sector groups such as the Philippine Chamber of Commerce & Industry (PCCI), Export Development Council (EDC), Philexport, Makati Business Club, etc., led in endorsing the Philippines accession and compliance to the RKC. These private sector organizations signed the letter of endorsement and support addressed to President Gloria Macapagal-Arroyo. The heads of various private sector groups agreed that Philippines accession and compliance to the RKC is a way forward to facilitate trade, enhance competitiveness and an effective tool for transparency and good governance. The highlight of the Summit was the presentation by BOC Commissioner Morales of the Letter of Endorsement to DOF Undersecretary Gil Beltran, who represented DOF Secretary Gary V. Teves in the summit. Commissioner Morales also adopted the national strategy put together by the Parayno Team as the national strategy for compliance to the RKC of the Philippines.

The Parayno Team also completed their revised RKC reports, addressing EMERGE comments on the initial drafts. This completes this TA to PhilExport and PCCI.

Task 2.1.2.4b Enhance the capacity of the Post-entry Audit Group (PEAG) to customs audits

The BOC PEAG II team started work in early January 2007. On the basis of their meetings with the Officer in Charge of the PEAG, Atty. Ligon, the team developed its work plan and secured the approval of its counterpart. The work plan focuses on the following:

- Customs Administrative Order on Voluntary Disclosure
- Procedures and forms for Customs field audits
- Procedures for Auditee Selection
- Office Security system
- Required competencies for various staff positions

Voluntary Disclosure Program

The team worked on the design and implementing rules of the proposed voluntary disclosure program of the Bureau. The program aims to encourage compliance among importers by providing them the opportunity to voluntarily disclose to the Bureau any underpayment of duties and taxes or non-compliance with existing regulations. Conditions are set in order to ensure fraudulent acts are prosecuted to avoid undermining the customs audit process. The consultant team met on several occasion with its counterpart team to review a draft Customs Administrative Order (CAO) on Voluntary Disclosure. Atty. Ligon submitted the proposed CAO on voluntary disclosure program to the Commissioner for his approval at the end of February. The draft is presently being reviewed by Deputy Commissioner Reynaldo Nicolas.

The Consultant team likewise worked with its counterparts to come up with a draft CMO detailing the implementing rules for voluntary disclosure. On March 22, the team consulted with the BOC staff of PEAG and representatives from the District Ports of Manila, Manila International Container Port and the Ninoy Aquino International Airport at a workshop to obtain their feedback on the program. The draft CMO incorporating inputs from the workshop was also submitted to Deputy Commissioner Reynaldo Nicolas for his review.

Audit Manual

The consultant team prepared materials that will be useful to the PEAG staff in conducting field audits. These include

- a toolkit to guide auditors in conducting interviews with auditees;
- a workplan to guide the flow of work and procedures; and
- compliance review schedule to provide a monitoring system on the activities of the auditors

The materials were presented to the PEAG staff in a workshop on March 1, 2007. During the workshop, work-related issues were discussed and clarified. The materials, together with inputs from the PEAG staff, were used to prepare forms that will standardize audit work and procedures and which will be incorporated into the audit manual.

The consultant team also discussed with the staff of the Trade Industry Risk Analysis Office (TIRAO) to gather data on profiling work that is being done by the TIRAO staff. There is a need to document work procedures presently being followed. The documentation will enable PEAG to establish minimum standards and introduce improvements.

Training needs analysis

The consultant team prepared a survey to assess the training needs of the PEAG staff. The survey, based on competencies required for PEAG core functions, was discussed with the

counterpart team prior to being administered to the PEAG staff. The results of the survey will be used to prepare a training program.

In the next quarter, the consultant team plans to complete its work.

Task 2.1.2.4(c) Institutionalizing PMS at the Bureau of Customs

The team started its work on January 22. An indicative work plan was drawn out and further firmed-up during the team's meeting with the BOC counterparts. Regular meetings followed with the BOC counterparts to gather relevant information and orient them on the OPMS.

Component: Office Performance Management System

Ms. Minette Soriano and Ms. Bing Pasaporte conducted a validation workshop with the Port of Manila (POM) offices to present the results of the 2006 OPMS workshops. Ms. Soriano presented the Strategy Maps of the Operations and Support Groups, including the vision and mission as well as the office scorecards. Participants shared their initial comments on the Strategy Maps and office scorecards.

Ms. Minette Soriano and Ms. Bing Pasaporte held a series of one-on-one interviews with the heads of the Operations and Administration Groups to elicit performance measures for the POM scorecard and measure dictionary. Baseline data for 2006 were also obtained for the measures identified. A focus group discussion was also held with Collector Suansing and his management team to validate the POM measures. An initial organizational assessment of the POM was likewise done during the FGD. The component team interviewed a broker (import/export) to get a different perspective and check the information obtained during the one-on-one interview. Ms. Soriano presented the draft PMS chapter to DepCom Umali and Atty. Noemi Alcalá for comments.

Component: Rewards Management Information System (RMIS)

The BOC-PMS component teams provided assistance to Deputy Commissioner Rey Umali in terms of preparing presentation materials for the Revenue Performance Evaluation Board meeting and the Command Conference during the month. The team agreed on the general outline of the final report and started writing the chapters of the BOC-PMS Guidebook.

The RMIS component team completed the rewards system simulation and formulated other versions to capture variations in goal size of the different collection districts. Dr. John Paul Vergara and Mr. Edwin Siao enhanced the RMIS by adding system maintenance and back-up features based on changes in the rewards system as requested by DepCom Umali. Dr. Vergara presented the Rewards System and Framework to the personnel of the HR Division and the Interim Internal Control Office.

Component: Goal Allocation

Ms. Lee De Dios and Mr. Joel Grenas firmed-up the goal allocation guidelines at the individual and district levels. The component team conducted a focus group discussion with the Port of Manila heads of offices to elicit information on the actual target setting and allocation process.

Regression results were generated using partial ACOS data obtained by the component team. They also came up with a proposed alternative method of goal allocation in the interim. Ms. De Dios and Mr. Grenas met with DepCom Umali to discuss the contents of the final report on the goal allocation and response to the Collectors' position on the Attrition Law.

Component: Legal

Atty. Analea Uy prepared a paper on ‘Assignment and Reassignment’ of personnel in the BOC relative to the Attrition Law. She worked with the BOC drafting team to finalize the CMO on Attrition Law, containing guidelines on PMS, Goal Allocation, Attrition, and Distribution of Rewards.

The team will complete its work in the next quarter.

Task 2.1.2.4(d) Modernizing the Customs Code

MCC-PTP Consultants Leonard Ginochi and Edmund Guamen and Ramon met with DepCom Umali and his staff to coordinate the work of the MCC-PTP and EMERGE on customs code harmonization. Umali expressed his preference that he would like the latter undertake the analysis of the code, based on which the recommended changes of the code would have to be made. EMERGE would jumpstart the work, which would then be completed by MCC/PTP, whose experts would translate the work done by EMERGE into a draft bill. Ramon will help MCC-PP develop the terms of reference for their part of this activity.

In the next quarter, EMERGE will come up with the terms of reference for this task and with USAID approval start to carry out this work.

Task 2.1.3.1b Improvement of the Department of Agriculture (DA) SPS administration systems, Phase 2

During the quarter, the CVAI consultant team completed their 2nd draft of the following reports: 1) architecture of border processes; 2) interim organizing arrangements; and 3) streamlined and harmonized business procedures for export and import processes. The team conducted several workshops with the Technical Committee in February (Feb. 2, 9, 16 & 23) to discuss the harmonization of import processes, and in March (March 2, 9, 16 & 23) to discuss the harmonization of export processes. One of the outputs of the February workshops was the draft DA Administrative Order (AO) on Guidelines for the Importation of Agricultural & Fishery Products, which mandates the adoption of the harmonized business processes, forms and requirements as proposed by the CVAI consultant team. If approved, the AO would be a milestone for this task.

On March 15, EMERGE discussed with the CVAI consultant team its comments on the above draft reports. Major comments on the reports are the missing (i) discussion of the methodology used, and (ii) analysis of the expected reduction in processing time and fees as a result of the proposed streamlined and harmonized business procedures. The latter is important since streamlining and harmonizing the business processes are meant to lower the processing time and, hence, reduce transaction cost. The analysis should be done on both the client’s side and the concerned bureaus. With the streamlined and harmonized procedures, the time of clients and cost to clients in complying with the required documents are expected to be reduced. The group agreed that the revisions on the reports will be made for the final tranche payment.

The CVAI team also requested a no cost extension of the project until end of May 2007. The team needs additional time to work on the additional comments of the Technical Committee and EMERGE on their reports. This task is expected to be completed next quarter. Reports to be completed are: (i) the final draft of the SPS streamlined business procedures; (ii) operating manuals of the streamlined SPS business procedures; and (ii) an integrative report.

Task 2.1.3.1(c) Conducting an Orientation/Workshop on the National Single Window

The DA SPS regulators and the Bureau of Customs Management Information System and Technology Group (MISTG) met every two weeks to develop the DA-BOC National Single Window. Deputy Commissioner Alex Arevalo and DA Asst. Secretary Joy Javelosa attended the meetings. There are about 9 agencies in the DA having respective mandates to regulate agricultural imports for sanitary purposes.

Ramon met with Deputy Commissioner Arevalo to discuss the progress of the national single window implementation and to schedule the two-day orientation workshop on the national single window. In another meeting, Ramon and BOC Deputy Commissioner Arevalo talked about the plan to hold a two-day orientation-workshop about the National Single Window to heads/representatives of agencies having to inter-connect with BOC with respect to cargo clearance. Arevalo asked EMERGE to support the event. The workshop will be held in the last week of May. In that workshop, the pilot NSW between BOC and DA will be showcased.

Ramon will draft a terms of reference for this NSW assistance to the BOC in the next quarter.

Task 2.1.4.1a Development and establishment of a standards and conformance (S&C) portal, Phase 1

Technical work on this task was completed in December 2006. However, revision of the terminal report by the consultant (Oliver Malabanan) incorporating EMERGE comments was put on hold as the consultant devoted his time to assisting EMERGE and BPS prepare the requirements of the purchase order (PO) for Phase 2 of the TA, as discussed below. The consultant is expected to submit the revised final terminal report before the end of the 2nd quarter.

Task 2.1.4.1b Development and establishment of a standards and conformance (S&C) portal, Phase 2

The TOR for this task was approved by the USAID on 22 January 2007. The task has four components: (i) systems development and customization; (ii) data conversion and content development; (iii) enhancement of the capability of the National Technical Coordinating Committee on Technical Barriers to Trade (TBT); and (iv) pilot testing and launching of the S&C portal.

EMERGE interviewed applicants and subsequently filled up the 6 LOE positions. Work on this task officially started following an organizational meeting on Jan 29. Except for component (iv), the different components are being implemented simultaneously.

For component (i), EMERGE issued a purchase order (PO) to SYSTEMA to implement this component. Oliver Malabanan assisted EMERGE in the preparation of the requirements of the PO. The development of the portal's system is on-going, with Oliver monitoring the work of SYSTEMA to ensure that the design of the portal, as formulated under Phase 1 of the TA, is properly implemented. Oliver also assisted BPS in determining the hardware configuration and requirements of the portal.

For component (ii), the inventory of Philippine National Standard (PNS) and other information resources from the different Action Teams (ATs) of the BPS is on-going. Database design & development is also on-going. The EMERGE team also developed software for the development of the concordance for HS (Harmonized System) and ICS (International Classification Standards). As discussed in previous meetings last year, BPS is using ICS for its product codes for the Philippine National Standards (PNS), as it is mandated to do so by the International

Standards Office. On the other hand, the business sector and other government agencies are following HS for their product codes, as mandated by the World Trade Organization. A concordance for HS and ICS is required because: (a) HS-based exporters need to know the ICS-PNS code for their products; and (ii) BPS needs to match its ICS codes with that of the HS codes when it receives notification from WTO for new/revised standards of member countries. The concordance will provide flexibility to all stakeholders of the portal, depending on which code they are comfortable to use.

BPS Director Jesus Motoomull created a Task Force that will review the concordance developed by the software and ensure that it is correct and agreeable to all stakeholders. The Task Force is composed of the following agencies: Tariff Commission, Bureau of Customs (BOC), Bureau of Export Trade Promotion (BETP), Bureau of Agriculture and Fisheries Product Standards (BAFPS), Bureau of Food and Drugs, National Statistical Coordination Board (NSCB), National Statistics Office (NSP) and BPS itself. The Task Force held two meetings this quarter (Feb 23 & March 30).

For component (iii), Dir Motoomull called a meeting on 7 March 2007 to form the National Technical Barriers to Trade Coordinating Committee (TBT Com). The meeting was attended by 28 participants representing 10 government agencies and 8 industry associations. The main agenda was the discussion of the draft Terms of Reference (TOR) of the Committee and the draft Memorandum of Agreement (MOA) among the members of the committee. The primary function of the committee is to provide policy direction for the effective implementation of the country's commitments to the WTO TBT Agreement and other bilateral/regional agreements. From among the members of the Committee, a network of technical experts will be formed whose primary function is to comment on notifications on new standards which the BPS receives from the WTO before such standards are finalized by the notifying member country.

This task is expected to be completed by the end of June 2007. The portal will be officially launched sometime 3rd week of June.

Task 2.1.5.1 Philippine global trade e-learning program (PGTEP)

While the program officially ended 14 Dec 2006, the on-line courses were still open until the end of January to enable the e-learners who hadn't completed the modules yet to satisfy all the requirements of the program. The IATP Secretariat conducted a survey of the e-learners on the impact of PGTEP on their job performance. The PGTEP Steering Committee, chaired by DTI Usec Thomas Aquino, met on 25 January and discussed the terminal report and results of the survey. Usec Aquino was very pleased with the outcome of the program, especially with the positive evaluation by the graduates on the usefulness of PGTEP on their job.

On Feb 15, the Department of Trade and Industry (DTI) and the PGTEP held a press conference to discuss the results of PGTEP. In attendance were DTI Senior Undersecretary Tom Aquino, Earth Council Gao Pronove, PGTEP Atty. Gil delos Reyes, EMERGE Myrna Austria and Ronald Jabal. Members of the press came from the Philippine Daily Inquirer, Philippine Star, BusinessWorld and Business Mirror. Usec Aquino hailed the program as a success because it was able to educate more than 400 participants coming from the government sector, NGOs, academe, private organizations and trade and labor groups about the WTO and the issues involved in trade negotiations. He expressed satisfaction on how the program was handled and managed and looks forward to subsequent phases of the training program. Atty. De los Reyes of the IATP Secretariat reported that based on a study his group conducted, the level of

understanding of WTO issues increased as a result of the training program.

On Feb 16, the IATP Secretariat, under the leadership of Gil delos Reyes, presented their terminal report at the USAID. Present during the debriefing were: Dr. Bob Wuertz, Tet Robielos, John Avila, DTI Undersecretary Thomas Aquino, Stu, Ramon and Myrna. Dr. Wuertz expressed his satisfaction over the outcome of the program. This ends this TA task to DTI.

Task 2.2.1.1 Field testing protocols for transgenic crops and principles underlying the regulation of GMO-containing processed foods developed

Regarding the action taken by DOH officials on the draft DOH Administrative Order on the labeling regulations involving GMO-containing processed foods, its counterparts at BFAD informed EMERGE that the draft document was referred back to BFAD during this quarter. The issue that one DOH official raised is for BFAD to justify the need for issuing the guidelines. EMERGE will continue to monitor the developments between BFAD and DOH on this proposed administrative order.

Task 2.2.1.2 Formulation of insect resistance management (IRM) strategy and development of regulatory protocols

While the technical work has been completed for nearly a year by now, EMERGE is monitoring the action taken by BFAD on the rules and regulations on identity preservation. Officially, the BFAD is reviewing these rules. It has decided to wait for the issuance by the Health Secretary of the proposed administrative order on the labeling of processed foods containing GMOs before issuing these protocols on identity preservation. EMERGE will continue to monitor the developments at BFAD on this proposed circular.

Task 2.2.1.3b Institutional capacity building and information, education and communication (IEC) campaign on modern technology, Phase 2

During the first quarter of 2007, the Biotech Coalition of the Philippines (BCP), the vendor for this task, conducted 3 institutional capacity building (ICB) activities for policymakers, regulators, technology developers; and 5 information, education and communication (IEC) activities for LGU officials, academe, students, farmers and business organization. Please refer to Table 3 below for the details of these activities.

Table 3
Summary of Institutional Capacity Building and IEC Activities
Biotechnology Coalition of the Philippines
January – March 2007

Type of Activities	Trainings/Workshops/Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
Institutional Capacity Building	Seminar on the Second Generation of Bt Insect-Protected Corn	Guideline and Protocol Development	26 January 2007	4	Apacible Conference Room, Department of Agriculture	30 (8 Male, 22 Female)	policymakers and regulators, technology developers
	Technical Meeting 2 on the Renewal of GM Permits	Guideline and Protocol Development	29 January 2007	4	Apacible Conference Room, Department of Agriculture	32 (17 Male, 15 Female)	policymakers and regulators, technology developers
	Technical Meeting 1 on Low-Levels Incidental Presence	Guideline and Protocol Development	05 March 2007	4	Policy & Planning Conference Room, Department of Agriculture	21 (8 Male, 13 Female)	policymakers and regulators, technology developers
Information Education and Communication	Special Seminar Course on Bioentrepreneurship	Public Seminar & RTD on Modern Biotech	03-05 January 2007	24	Operations Room, Office of the Chancellor, UP Los Baños	72 (25 Male, 47 Female)	Faculty members, scientists, IP officers, graduate students
	Public Seminar & Consultations on Proposed Biosafety Guidelines	Public Seminar & RTD on Modern Biotech	09 March 2007	5	Linden Suites, Ortigas, Pasig City	53 (26 Male, 27 Female)	regulators, technology developers, scientists, industry organizations, media, farmers, civil society organizations
	Seminar-Workshop on Biotech Economic Opportunities for Southern Luzon	Seminar-Consultation on Biosafety/ Biocommerce	25-26 January 2007	18	Development Academy of the Philippines, Tagaytay City	91 (40 Male, 51 Female)	LGU officials and executives, media, NGOs
	Seminar-Workshop on Economic Opportunities in Biotech for Quezon Province	Seminar-Consultation on Biosafety/ Biocommerce	05-06 February 2007	18	Lucena City, Quezon Province	98 (42 Male, 56 Female)	LGU officials and executives, farmers, investors/business organizations
	Seminar-Workshop on Biotech Economic Opportunities for N. Luzon	Seminar-Consultation on Biosafety/ Biocommerce	23-24 February 2007	18	Baguio City	103 (61 Male, 42 Female)	LGU officials and executives, farmers, investors/business organizations

Task 2.2.1.4 Capacity building for public research institutions to comply with biosafety regulations on transgenic crops

a. PRSV Papaya – On 8 January 2007, the ISAAA received the official notification from the National Biosafety Committee of the Philippines (NCBP) of the latter's approval of the proposal for the conduct of the confined trial of the PRSV. The planting of the first confined trial of PRSV papaya was carried out in Site 1, IPB-UPLB compound on 23 February 2007. This is the first time that a locally-developed bioengineered tree crop was planted outside a BL2 greenhouse in the Philippines. Also, the confined trial site assessment and development activities were completed. Physical and biological data required by the regulators were compiled and submitted to BPI Biotech Core Team.

In terms of regulatory actions, the UPLB-IBC and representatives of NCBP and BPI Biotech Core Team inspected terminated T2 papaya trees in BL2 greenhouse. The application for Site 2 planting was re-submitted on 2 March 2007 to the UPLB-IBC for endorsement to the NCBP.

In terms of IEC & capacity building activities, the PRSV papaya team hosted visits of regulators, partners, stakeholders and other visitors in the PRSV Papaya BL2 GH. This includes: 33 international participants in the ISAAA/SEARCA-sponsored workshop "Farmer Biotech Outreach: Strengthening the Competitiveness of Small Farmers; 38 participants in the PCARRD/ABSPII-UPLB/SERACA/ISAAA-sponsored "Consultative Workshops for Selected Philippine Crop Biotech Projects." The PRSV team also received training through attendance in training courses, workshops, seminars and in-house apprenticeships.

All product and regulatory research activities were continued as per revised schedule.

The in-country workshop on biosafety and food safety was re-scheduled for the first week of May due to late planting in the confined trial site.

b. FSBR eggplant – The backcrossing and selection from BC1 to BC2 was completed. The bio-efficacy of the Bt gene from Mahyco EE-1 against the Philippines' eggplant fruit and shoot borer was confirmed and demonstrated. The confined trial site development was also completed. The draft monograph on the "Biology of Eggplant *Solanum melongena*" was completed and submitted. The principal proponent received from the Mahyco partner the regulatory dossier of the Mahyco event EE-1.

In terms of regulatory actions, the experimental set-up for the first batch of crosses was formally terminated on 24 Jan 2007. The team also prepared the draft amendment to the approved contained use experiment. All research activities (bioefficacy testing, insect rearing, molecular analysis, etc) were continued throughout this quarter.

In terms of IEC and capacity building activities, the FSBR team hosted visits of regulators, partners, stakeholders and other visitors in the FSBR eggplant BL2 GH. The FSBR team also received training through attendance in training courses, workshops, seminars and in-house apprenticeships.

3rd backcrossing, marker-aided selection activities and horticultural trait evaluation was delayed by one quarter due to the late planting of second batch of BC1 crosses and lack of greenhouse space. 3rd BC will be produced next quarter.

c. Delayed ripening papaya – During the quarter, the research team revised their proposal for field testing of the transgenic papaya in response to the comments of the Scientific & Technical Review Panel of the DA Bureau of Plant Industry (DA-BPI). The permit for field testing was later issued by BPI on March 20, 2007. On 26 March 2007, the seedlings of the transgenic and control lines were brought to & transplanted in the field trial site under the supervision of the representatives from DA-BPI and the UPLB Biosafety Committee. The papaya with delayed ripening trait is the first transgenic crop developed by Filipino scientists using modern biotechnology that was granted a biosafety permit to open field test in the Philippines by the DA-BPI.

On research activities, PCR screening of the controls and transgenic lines that were planted in the field was completed. Also, a modified PCR protocol for the simultaneous detection of the selection marker and the transgene was tested. Likewise, the proximate analysis and determination of the Vitamin C content of the transgenic lines and the control Davao Solo were completed.

The survey on papaya production and marketing strategies started in February and is still ongoing. The questionnaire includes a question on the level of awareness of the farmers with regard to transgenic papaya. For this quarter, the survey covered the provinces of Laguna, Cavite and Quezon. The survey in these provinces shows that papaya plantation has dramatically declined through the years because of the heavy incidence of pests and diseases (PRSV). The economic analysis (macro and micro level) of papaya production based on the survey will be completed next quarter.

Task 2.2.1.5 Developing the policy, regulatory, and institutional capacity of DA and BFAD on biopharming

Performance Milestone Achieved: On April 2, 2007, DA Secretary Yap issued guidelines for the renewal of permits of regulated articles for propagation as Memorandum Circular (MC) No. 2, Series of 2007.

During this quarter, ISAAA completed the following deliverables: (i) final draft of biotechnology industry survey instrument; (ii) policy briefs on the science-based implementation of the National Biosafety Framework; (iii) draft DA guidelines for the renewal of permit of regulated articles for propagation; (iv) draft DA guidelines for the renewal of permit of regulated articles for direct use; and (iv) draft DA guidelines on delisting of regulated articles. The deliverables have met the requirements of the grant to ISAAA.

Guidelines for the renewal of permits of regulated articles for propagation were issued on April 2 by DA Secretary Yap as Memorandum Circular (MC) No. 2, Series of 2007. The other draft guidelines will be presented this April for final consultation with the stakeholders before endorsing them to Sec Yap for issuance as MCs.

The project is expected to end June 2007. Expected deliverables for the remaining duration of the TA include: (i) draft DA-BFAD guidelines on the regulation of GM pharmaceutical crops; and (ii) final draft of the study on the competitiveness of the biotech industry in the country.

Task 2.2.2.2 Improving the business development support services for SMEs

Last quarter, EMERGE planned to take up with BSP Deputy Governor Espenilla and Director Dimagiba of DTI/BTRCP the matter of continuing the work real estate reforms. In this quarter, Ramon and Mario met with Atty. Prudence Kasala, who represented Dep. Gov. Espenilla. Ramon talked about the database of real estate transactions, and the need of its private sector organizers for the government to have a stable, unique, geographic identifying code (GIC) for

real estate properties. Ramon suggested that the BSP and DTI hold a workshop about the GIC and come up with a proposed code that the President may consider instructing the concerned agencies to use. Dimagiba thought some other government agency had to be the lead.

Ramon and Mario met also with Dr. Virola who heads the National Statistical Coordinating Board (NSCB) about this. Virola supports the holding of this workshop. Virola agreed to participate in the workshop and likewise present the NSCB's code.

In another meeting, Ramon met with Ian Lloyd, Hamish McDonalds and a consultant from UK, all of whom are from the PA-LAMP II. He briefed the LAMP management about the need for a geographic identifying code and the standards. Lloyd offered a unique code and explained its use to Ramon. It would appear that what may then be needed is for EMERGE to support BSP in holding a meeting of selected stakeholders to discuss and improve on LAMP's code and the steps required to institutionalize such a code.

Starting in the next quarterly report, this activity will be reported under the banking and capital markets theme, which Mario manages. This task will be Task 4.1.2.4e on formulating a Geographic Identifying Code (GIC) for Real Estate Transactions. EMERGE will draft and circulate a terms of reference for the workshop in the next quarter.

Task 2.2.2.3a American Chamber of Commerce-Philippines (AmCham), Investment Climate Improvement Project (ICIP) 1

Performance Milestones Achieved in English Language Training: 1) The UPS Foundation informed AmCham ICIP Promoting English Proficiency (PEP) staff of its decision to provide \$50,000 to fund Computerized English Language Centers (CELCs) at 5 colleges and high schools in Metro Manila and Pampanga.

2) Citibank Foundation informed PEP of its decision to provide \$15,000 to fund CELCs in two Metro Manila high schools equipped with computers by Citibank.

3) The Philamlife Board approved a grant to PEP of \$100,000 to establish CELCs in six colleges to provide refresher English training to teachers and education majors.

Performance Milestones Achieved in Infrastructure/Power: 1) ERC approved 5-year transition supply contract between NAPOCOR and MERALCO.

2) The Department of Justice issued a legal opinion affirming that PEZA has authority to regulate power in ecozones. PEZA DG De Lima said the legal opinion removes ERC authority over firms operating within ecozones.

3) DBM Secretary Andaya said GRP will allot additional P528B for infrastructure development in next three years, on top of P1.7B previously projected that would include private-sector investment.

Performance Milestones Achieved in Legislation: 1) Bicam resolved disagreements in proposed P1.126T national budget for 2007. BICAM reportedly split the difference to break deadlock on DepEd food-for-school program, paving way for final approval of P1.13T **national budget for 2007**. (Note: Congress has failed to pass budget for last three years).

2) President Arroyo signed RA 9637, the **Biofuels Act** into law.

3) The BICAM approved **Clark SEZ tax amnesty bill**.

4) The House passed on 3rd and final reading a bill creating **credit information bureau**.

5) The BICAM approved a bill on **poll automation**.

President Arroyo signed into law RA9369 (amending RA8436), which mandates **automation of elections** starting with May 2007 senatorial and local elections.

6) Following **EVAT amendment** to correct 70% input cap problem, BIR issued Revenue Regulation (RR) 2-2007, dated 12/12/06, which changes RR 16-2005 or the Consolidated VAT Regulations of 2005, allowing taxpayer input VAT that exceeds their output tax to be carried over to next quarter.

7) *The BICAM passed **PI.126T national budget for 2007**. The President is expected to sign it before Congress adjourns.*

8) *The BICAM approved in principle a bill creating **credit information bureau**.*

9) *The BICAM endorsed for approval a committee report granting **tax amnesty** to locators at former US bases (except Subic where it is not needed) and creating **freeport zone** at Clark and SEZs at John Hay, Morong and Poro Point.*

10) *The House ratified BICAM report on **anti-terror bill**, renamed as “Human Security Act of 2007.” PGMA to sign it into law in March.*

11) *Congress passed the **anti-red tape** bill for the President’s signature.*

Performance Milestone Achieved in Anti-Corruption: *DTI Secretary Favila announced creation of an **investment ombudsman** who will oversee graft charges against government officials perceived to be blocking investment activities. A new female ombudsman is to be announced soon.*

GRP Success Stories: 1) *BSP reported **net FDI inflow** of \$46M in November 2006. Total FDI for January to November 2006 reached \$2B, 50% higher than in same period last year and highest since 2001.*

2) *PEZA reported approved **investments** in economic zones reached P3.13B in January 2007, 58% higher than P1.9B in January 2006, while January 2007 **exports** increased by 17% to \$3 B from only \$2.6 B in January 2006.*

3) *President Arroyo and DOE Secretary Lotilla inaugurated a \$305M 210MW **Mindanao coal power plant** built by STEAG State Power (German) at PHIVIDEC Industrial Estate in **Misamis Oriental**. STEAG senior official expressed company’s willingness to invest further in RP, provided company is given a GRP power purchase agreement.*

4) *DOE Secretary Lotilla said TEPCO and Marubeni (both Japanese) plan to invest \$400M for 400MW expansion of 735MW **Pagbilao coal-fired power plant** in **Quezon**.*

The AmCham ICIP team participated in many meetings with government, Congressional, and other private sector leaders and wrote many letters to discuss and advocate legal and policy changes needed to improve the Philippine investment climate. These are too numerous to mention here, but taken all together and with the joint efforts of other foreign and domestic chambers of commerce they helped to achieve the milestones and GRP successes listed above.

An editor/writer was hired to assist AmCham in preparing the final reports under this grant, which ended on Feb. 28.

Task 2.2.2.3b American Chamber of Commerce-Philippines (AmCham), Investment Climate Improvement Project (ICIP) 2

Performance Milestones Achieved: *Legislation: President Arroyo signed RA 9399, granting one-time tax amnesty to Clark and four other ecozone locators, and RA 9400, which converts Clark and three other ecozones into freeports.*

English Language Training: The first of six Philamlife Computerized English Language Centers (CELCs) was inaugurated at Aurelio University in Cabanatuan, Nueva Ecija.

Manila Rotary Club donated PhP300,000 for one CELC using new AmCham Promoting English Proficiency (PEP) software AmEnglish of ETS, Princeton, New Jersey.

AmCham PEP obtained an agreement from Texas Instruments, Moog Controls, Client Logic and People Support at the Baguio Export Processing Zone to budget \$40,000 to fund CELCs in five Baguio universities.

A second grant proposal was received from AmCham to identify problems in the Philippine investment environment and work toward the implementation of effective policy, procedural, organizational or legal solutions among the various stakeholders in the GRP and the private sector. Following USAID approval, a new Grant Agreement was executed between EMERGE and AmCham on March 1, 2007, which will end on June 30, 2007.

The ICIP team continued its advocacy work, alone and together with other chambers, as before, with numerous meetings and written communications. Two of its more interesting interventions are recorded here:

In a March 5 **National Competitiveness Council-Improved Transaction Flows & Costs (NCC-TFC)** organizational meeting of co-champions with Private Sector Champion Balangue, EDC ED Cala, and DTI Usec Maglaya, ICIP Senior Advisor:

- as Co-Champion for Priority Project on “Harmonization of Incentives” (with ECCP EVP Schumacher and AmCham ED Sears), requested NCC Secretariat to organize meeting at undersecretary level for DOF and DTI to meet with JFC and business association reps to discuss harmonization of incentives with respect to Tourism Bill and SB 2411;
- when Deputy Customs Commissioner Nicolas made statement about improvement in attitude and performance in the BOC, raised issue of auto smuggling at Subic, confirmed to be continuing last week, and pointed out that Customs office there is acting in defiance of Supreme Court, the president's EO and the BOC Commissioner;
- suggested Philippine Chamber of Air Express Operators be represented for Priority Project on “Enhanced Procedures for Entry and Exit of Goods” in order to advocate raising de minimis entry level to ASEAN standard of \$100 from current P10;
- added “electronics” to three investor sectors identified (mining, ICT, health/wellness/retirement) to have their issues/roadmaps prioritized for attention by Anti-Red Tape Task Force;
- questioned information said by PPA Board Member, who suggested international shipping lines are responsible for high costs at Manila port, and suggested we benchmark both arrestre and shipping charges of most competitive regional ports (HK, Malaysia, Singapore) and move towards their costs; and

- in discussion of monitoring of agency performance in reducing red tape and transaction costs, described suggestion of an AmCham member for a Customer Satisfaction Survey of selected agencies by a private polling firm, which would be independent of existing and future monitoring and report cards by government.

AmCham ED and ICIP Senior Advisor participated in annual **Philippine Development Forum** in Cebu on March 8-9, 2007:

- ICIP Senior Advisor was proactive in networking among delegates and in Breakout Session on Infrastructure and Transaction Costs (chaired by DOE Sec Lotilla and DTI Sec Favila and Presidential Chief of Staff Salceda) in endorsing DOE and NPC efforts to **reduce power prices** for industrial users and in encouraging that specific, properly-prepared **infrastructure projects** be bid out as PPPs in the next 12 months. The session endorsed to the full PDF that 5 PPP and 5 non-PPP infra projects would be prioritized in the next 12 months. Senior Advisor also applauded the World Bank for the discussion of **competition policy (aviation, cement, ports and power)** in the background document prepared for the PDF and announced that the JFC would soon issue a statement endorsing EO 500-B which establishes a permanent **open skies policy** for Clark and Subic.
- ICIP Senior Advisor discussed privately with BIR Commissioner Buñag **auto smuggling** at SBMA and elsewhere, informing him of our estimate that illicit trade in used car imports is worth \$150-\$200 million per annum which is escaping taxation. Former DOF Undersecretary Bernardo in Breakout Session on Fiscal Issues told group (chaired by DOF Sec Teves) that DOF and BIR should crosscheck GRP data, in this case by looking at excess of new vehicles registered (177,000 in 2006) over new vehicles produced in the country to understand magnitude of possible lost revenues if used cars are being smuggled in through Subic and other ports.
- ICIP Senior Advisor agreed with request of former PCCI president Ambassador Donald Dee that AmCham and other JFC representatives would meet in near future to discuss active support for **liberalized aviation and port competition policies** vis-à-vis captured regulatory agencies such as CAB and PPA.
- AmCham ED and ICIP Senior Advisor discussed with Presidential Chief of Staff Salceda **PEZA regulatory authority** over power at PEZA zones and **open skies at Clark and Subic**. Salceda said he supports both reforms.
- AmCham ED proposed to former PCCI president Donald Dee to join meeting AmCham would organize for AmCham, BAP, FINEX, MAP and MBC to discuss **legislative priorities for the 14th Congress**. Dee agreed.
- JFC representative Stewart Hall, president of CanCham, sat at head table at annual PDF and delivered statement, symbolizing importance of **FDI** to Philippine economic growth, and reflecting the opening statement of WB Country rep Joachim von Amsberg that investment as percent of GDP is too low and reforms which will help to increase investment are high priority.
- ICIP Senior Advisor at PDF asked Sec Lotilla if the JFC could meet with his energy team for another **update on energy** picture as was done at DOE each of the last two years. He agreed that this could be arranged at a date after Easter.

- IFC officer informed ICIP Senior Advisor that IFC technical experts working on “notes” for the **rationalization of fiscal incentives bill** and would present their work to and consult with industry groups in a month or two.

Task 2.2.2.4 Establishment of mechanisms to increase Philippine stakes in stronger intellectual property rights enforcement

In this quarter, Ramon worked with the IPO officials to finalize the terms of reference for this task. Ramon met with IPO Director General Adrian Cristobal and a few of his staff to discuss the objectives of the IPO reform program for which the EMERGE technical assistance is being requested. EMERGE assistance is sought for (a) the training of DTI regional officials on IP as an intangible business asset and (b) the technology licensing capability building for state universities. That meeting greatly improved the rationale and design of the proposed TA. With USAID approval, EMERGE can start and complete its work under this Task in the next quarter.

Task 2.2.2.6a Manpower and remuneration assessment in the mining industry and improving transparency payments and utilization of mining taxes

EMERGE hired the services of RS Bernaldo & Associates to conduct the reconciliation of payments made by the mining companies with the receipts by the LGUs of such payments. The Chamber of Mines was not able to present the TA to the Mining Development Council (MDC) because of the resignation of the council’s Executive Director. The meeting was postponed until the director’s replacement assumed office. In January, TVIRD in Siocon, Zamboanga Del Norte, one of the project sites earlier selected for this pilot project, was replaced with Rio Tuba Nickel Mine Corp in Bataraza, Palawan. The change of project site was due to the demands and requests of an LGU official in Siocon, which would entail an increase in the project’s budget.

During this quarter, EMERGE and the project team, including RS Bernaldo, conducted several consultative meetings/workshops with LGU officials in Benguet and Palawan, and officials of Philex Mines and Rio Tuba Nickel Mine to discuss the review of the reporting process, the documents, data and information required by the RS Bernaldo, coverage of the review (2004-2005), and the staff with whom the audit team needs to work.

Consultative Meetings	Participants
8 February 2007 – Palawan; Rio Tuba Nickel Mine Corp	Vice-Governor and members of the Provincial Board, Palawan
	Mayor of Bataraza
	Heads of affected barangays
	Representatives of indigenous peoples group
17 March 2007 (AM) – Benguet LGUs	Governor and Vice-Governor, Benguet
	Municipal administrators, Itogon & Tuba
	Barangay captains of Ampucao & Padcal
17 March 2007 (PM) – Philex Mines	Asst. Manager, Environmental Dept
	OIC, Community Development
	Budget supervisor
	Senior Accountant
22-23 March 2007 – Palawan; Rio Tuba Nickel Mine	Palawan LGUs
	Management and staff of Rio Tuba Nickel Mine

30 March 2007 – Benguet	Finance groups of Benguet, municipalities of Tuba and Itogon and barangays Camp 3 and Padcal. The group includes: treasurers, budget officers, accountants, planning officers, & assessors
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The gathering of data at the mine sites (Philex and Rio Tuba Nickel Mine) by RS Bernaldo was completed as the mining companies were ready with their financial documents during the workshops. On the other hand, the gathering of data from the LGUs is currently on-going.

On March 30, a briefing on the EITI project was conducted for the MGB, CAR Region by the project team (EMERGE, the consultants and RS Bernaldo). The MGB officials expressed support for the project and are willing to share data and information on the mitigating measures. Gathering the data by RS Bernaldo is on-going.

This TA is expected to be completed by June 2007. Remaining activities include: (i) briefing the MDC Policy Group on the project; (ii) writing of the reports; and (iii) presenting the findings and recommendations in a workshop in June 2007.

Task 2.2.2.6b Manpower and remuneration assessment in the mining industry

Ramon worked with Miss Nelia Halcon of the Chamber of Mines to improve its proposal for a grant to undertake an assessment of the country’s mining manpower gap and remuneration practices of companies in the metallic mining industry. Ramon met with Dr. Ben Austria, a professor of geology at the University of the Philippines in Diliman, who is selected as a possible consultant for the mining manpower assessment. Being from the academe, Austria is identified to do the evaluation of the supply side of this manpower assessment. Ramon has been helping the Chamber of Mines improve its request for a small grant to undertake this assessment. Ramon likewise met with Dr. Amorsolo who chairs the Department of Mining and Metallurgical and Materials Engineering at UP. The meeting was in connection with the proposed manpower assessment study. Amorsolo declined to do part of the study and suggested one of his faculty colleagues. This faculty member suggested in turn Dr. Ben Austria, with whom Ramon had talked earlier. EMERGE expects the Chamber to submit a revised proposal next quarter.

Infrastructure-- Specific Tasks

Task 3.1.1.3a Inter-modal Road-RORO Terminal System (RRTS) Project (Eastern and Palawan nautical highways)

Performance Milestone Achieved: *The DBP (Mar Encio and staff), the RRTS Team, and EMERGE (Ramon Clarete) conducted the first regional investors’ forum for the Road-RoRo Terminal System (RRTS) in the municipality of Pilar, Sorsogon, on February 22-23, 2007, based on the EMERGE RRTS report. The second (and last) regional investors’ forum was conducted in Cebu City on March 7-9.*

The RRTS team submitted a final report, which reflected comments made by EMERGE and the Development Bank of the Philippines (DBP), which requested the analysis. The report showed that the the Bicol Mainland-Masbate-Cebu connections (Central Nautical Highway) RRTS can be viable with significant private sector participation. The review pointed out that, in practice, RoRo vessel operation and RoRo terminal operation in the Philippines are often viewed as

separate activities—the government through the Philippine Ports Authority (PPA) or the local governments provide the port services and the private sector supplies the vessel services. The review concluded that for any defined route, the two are actually interdependent and complementary investments (one cannot operate without the other), and there is merit in “bundling” both into a single business if integration proves to be viable. For the case at hand, i.e., the Bicol Mainland-Masbate-Cebu connections, integrated operation is financially viable, offering sufficient returns to attract private sector interest not just in vessel but in port operations as well.

Task 3.1.1.3b RRTS Road Show to Bicol and Cebu

The RRTS Road Show forums on February 22-23 and March 7-9 were critical venues for discussing outstanding policy and local issues that could affect the success (viability) of investments in the RRTS and identifying potential investors, including stakeholders who would support the local investment. The forums also provided an opportunity to participants to identify issues that should be addressed by both the national government and LGUs to facilitate RRTS investments.

During the last two weeks of March, DBP conducted road shows in major cities such as Cebu City, Cagayan de Oro City, General Santos City, etc., to drum up interest and support to the bank’s funding facility for various infrastructure projects, including the RRTS. The investment folio on RRTS that was produced with EMERGE assistance was used as a template for presentations in those road shows, as well.

Task 3.2.1.2c Building capacity in NTC to implement competition policy in the ICT sector

Performance Milestone Achieved: *The consultant team (Joy Abrenica and Jhiedon Florentino) submitted draft Reference Access Offer (RAO) guidelines, which were reviewed by EMERGE and the technical working group on RAO that was organized by National Telecommunications Commission (NTC). The NTC accepted the draft guidelines and conducted a public hearing on them on March 26.*

During the public hearing, various stakeholders, e.g., ETIPI, PhilTel, Smart and Bayantel, among others expressed support for the RAO guidelines. One large telecommunications company expressed reservations against it. The NTC expects to issue the RAO final guidelines on or before the second semester of 2007.

The consultant team will continue with their technical assistance to NTC by helping to draft guidelines on Significant Market Power Obligations in the next quarter.

Task 3.2.2.1c Strategy and plan to expand the use of VOIP and Internet technology in the regions developed (Last Mile Initiative Program)

The LMIP team led by Mae Bualat conducted training on the Joomla web development for three local governments in Mindoro Oriental (March 26-31, 2007). Joel Umali worked with Mae Bualat to finalize the training modules on web development.

EMERGE reviewed the draft Memorandum of Agreement (MOA) between EMERGE and Gawad Kalinga to deploy e-learning modules, specifically ‘eSkwela’ e-learning modules for Out-of-School Youth (OSY) developed by the Commission on Information and Communications Technology (CICT) in partnership with the Department of Education (DepEd). The partnership expects to identify best practices and models that could be deployed in other CeCs. The team

made final preparations for the e-learning training of four Gawad Kalinga youth centers to be held in April.

EMERGE reviewed the draft MOAs between EMERGE/LMIP and Claveria LGU and between EMERGE and the municipality of Calamba on the technical assistance to be rendered by EMERGE/LMIP to these LGUs.

EMERGE team met with various organizations (Calamba City LGU, UP College of Medicine, Telecommunications Office in Cagayan de Oro City) on proposed LMIP technical assistance to community e-centers in their areas of responsibility. EMERGE also reviewed the proposed budget for the UP Telemedicine project that will be implemented in the next quarter. The team started work on the video production for the UP PGH Telemedicine project with the Upi, Maguindanao CeC.

The LMIP team conducted the 5th batch of the I-school Web Board Teacher in the Web e-learning program on February 19-23, 2007, at the Department of Education Computer Laboratory. A total of seventeen high school teachers from six public high schools participated in the training. Mr. Glenn Sumido, Chief of Staff of Secretary Jesli Lapus attended the presentation of website outputs during the last day.

Task 3.2.2.2 Formulating a new Road Map for the development of the Philippine ICT sector

Performance Milestone Achieved: *The Commission on Information and Communication Technology (CICT) accepted and approved the beta website for its Strategic Plan Road Map.*

EMERGE worked with Think Ideas on the development of a web site for the CICT Strategic Plan (Road Map). Think Ideas submitted the beta web site for the Strategic Plan. This was accepted and approved by both CICT and EMERGE. This task is finished.

Task 3.3.2.1b Inventory of government assets for privatization.

EMERGE consultants, Tekk Rigo and Ronald Conquilla encoded data and started the design of the asset inventory management system. Their work consisted of defining the system architecture, system output and interfaces; refining functional requirements (as necessary); defining the internal structure of each program module and source code specifications; determining where the system will reside; and designing application security. There were delays in the submission of data to the consultants because of limitations in the number of personnel (in the disposition entities) involved in handling documents and who are knowledgeable about the data.

The consulting agreement with the consultants was extended to March 31, 2007 on a no cost extension basis. Tekk Rigo and Ronald Conquilla completed the asset inventory management system. However, availability of data from Land Bank of the Philippines continued to be a problem. EMERGE informed Undersecretary John Sevilla of the data problem. Tekk and Ronald started preparations for the presentation of the inventory management system to Undersecretary John Sevilla on April 02.

EMERGE and the DOF Privatization Office reviewed the remaining requirements for a good asset inventory management system and concluded that DOF Privatization Office would need a web-based inquiry system for viewing inventory data and a digital documents library. These enhancements were not part of the original terms of reference of the consultants. Undersecretary John Sevilla sent a letter to EMERGE asking for assistance on the additional technical work for a

complete asset inventory management system. A request for approval of these additional tasks was sent to USAID on March 20, 2007.

Task 3.3.2.1c Privatization of certain government assets.

USAID approved the request for the extension of Davis' and Ambrosio's contracts.

MRT-3: Performance Milestone Achieved: MRT-3 Refinancing. *The refinancing or repurchasing of the equity interests of the MRT-3 commuter rail line is a project to reduce the long run cost to the government of paying lease rental for this project. In the first quarter of 2007: (1) the DOF Privatization Office requested a legal opinion from the Department of Justice that would allow for the refinancing of the equity without Congressional approval, and (2) met with holders and representatives of the equity interests in MRT Corporation (MRTC) to discuss the likely cost and structure of a potential buyout. Advisors to the MRTC confirmed to DOF representatives that their thinking of the cost and strategy mirrors that of the MRTC equity investors.*

Ray Davis assisted DOF Undersecretary Sunny Sevilla to seek ways to refinance the equity lease rental payments of MRT-3. MRT-3 is the light rail line that runs along EDSA from Quezon City to Taft Avenue in Manila. The project was privately constructed and was leased to the Philippines Department of Transportation (DOTC) over a 25-year period. The lease was characterized in three payment streams, an equity rental payment, a debt rental payment and a maintenance rental payment. The equity rental payments were structured to provide the holders a 15% annual return. All of the payments are direct obligations of DOTC. Although the debt holders are further protected by a letter of the then DOF Secretary, indicating that the debt is a full faith obligation of the Republic (and the annual payments are automatically appropriated), the Equity Rental Payments are subject to appropriation. The situation is further complicated by the subsequent securitization of 77% of the rental payments, which were sold in tranches to financial investors. Philippines sovereign obligations are currently yielding in the 7% range. Were the lease rental obligations to be refinanced using sovereign debt at current levels, the estimated cost saving to the government is over \$700 million in rental payments through the financing period. DOF is working with DOTC to determine whether the lease equity rental payments can be refinanced at a lower net cost to the Government than continuing to accrue at a 15% return.

PTIC Shares- Performance Milestone Achieved: *The National Government sold its shares of the Philippine Telecommunications Investment Corporation (PTIC), which has an interest in Philippine Long Distance Telephone Company, Inc. (PLDT), for around PhP25 billion. The sale was completed in the first quarter of 2007.*

The First Pacific Group exercised its right to match the winning bid submitted by Parallax Fund. Job Ambrosio assisted the Privatization Office in reviewing and drafting the Terms of Reference and the draft agreement as well as providing advice on tax issues related to the sale. Ray Davis also assisted Undersecretary Sevilla in work related to the privatization of these PTIC shares.

Al-Amanah- Performance Milestones Achieved: *In the first quarter of 2007 (1) the BSP provided a regulatory regime for Amanah Bank that allows the restructured Islamic Bank to retain conventional commercial banking powers for a 5 year period; and (2) The final TOR to solicit bidders for the sale was issue with the prequalification credentials deadline set for April 13, 2007.*

Ray Davis and Job Ambrosio continued with their advisory work on the privatization of the Al Amanah Islamic Bank. They also assisted DOF in discussions with BSP on the regulatory framework applicable to this bank. Potential foreign investors from Dubai and Malaysia have expressed interest in it but would like firm information on the regulatory framework (applicable to Al Amanah) prior to any investment decision. Privatization of the Bank was originally scheduled for bidding in March 2007, but it was postponed, with the TOR issued in March 2007 and prequalification submissions due on April 13, 2007. Submission of the bids for the sale of the Bank was tentatively scheduled for May 21, 2007.

Iloilo Airport: Performance Milestones achieved: (1) The TOR for solicitation to purchase the 54 hectare property site of the old Iloilo Airport was issued on March 1, 2007, with prequalification submissions due March 27; (2) On April 3 five prospective bidders were deemed to be eligible bidders comprising the largest property developers in the Philippines. The eligible bidders are: Ayala Land, a subsidiary of Megaworld, Robinsons, Rockwell and SM

During this quarter, the EMERGE consultants helped the DOF PO with preparatory work for the competitive tender of Iloilo Airport. A pre-bidding conference on Iloilo Airport was held on March 15. Three of the private investors who attended the pre-bid conference bought bid documents on the spot, which indicated a serious interest in the airport. The DOF will schedule the bidding sometime in April.

Nonoc Mines- In January 2007 Jinchuan Group of the People's Republic of China issued a press release stating that they were still interested in pursuing the NONOC Project, but they would no longer propose to own the Mine in a joint venture with Philnico.

Gold Mine- The Government suspended the bidding process for this project, so the advisory work on Gold Mine did not continue. The Government subsequently suspended the bidding process for this project.

Banking and Capital Markets-- Specific Tasks

Task 4.1.1.1b Designing the Philippine Consumer Finance Survey

BSP and EPRA informed EMERGE that Kennickel's visit to the BSP this year will no longer push through. BSP instead proposed to change EMERGE participation in the development of the Consumer Finance Survey (CFS) project into the following activities: (1) support for the attendance of four BSP officers from the Department of Economic Statistics to the interviewer training of the USSCF to be held in the United States for five days from May 1-5 2007 or from May 28-June 2, 2007, and 2) funding the logistical requirements of four local workshops on the CFS framework and data coverage to be conducted from April to June 2007. Callison informed BSP that EMERGE cannot support the first activity due to budget and time constraints. For the second activity, he asked BSP and EPRA to provide the rationale for conducting such activity and more detailed information about the workshops so he could submit it to USAID for approval.

Task 4.1.1.3b Policy Review of Financial Sector Taxation

The team presented their proposed framework to achieve tax neutrality, preliminary findings and recommendations to the CMDC's Tax Concerns Team during a meeting held on Feb. 28. There appears to be a consensus on the team's proposed framework for achieving tax neutrality and on the following six specific recommendations:

- a. shift to a uniform final withholding tax (FWT) of 10% on interest income
- b. set a ceiling on DST on insurance contracts
- c. reduce or eliminate the 5% tax on insurance premium
- d. return to the old practice of allowing deduction of contribution to trust funds in computing the tax base of the VAT on non-life insurance premiums
- e. Exempt repos from transactions taxes and taxes on interest income
- f. Push for approval of tax breaks on earnings of investment for retirement accounts (e.g., PERA bill).

With respect to the last proposal, there was agreement on Dr. Medalla's suggestion to immediately draft a good IRR once the President signs the PERA bill, which was already approved by both Houses of the Philippine Congress. The team earlier met with authors of the PERA bill to clarify the need to provide the 5% income tax credit, the interest income tax exemption on PERA investments, and the positive pro-poor effect of providing a yearly limit on creditable PERA contributions every year. As presented to the President however, the bill has some language that may lead to different interpretations on whether the bill imposes a limit on the amount of interest entitled to the exemption.

There was also agreement to include reinsurance in (e). Finally, there was agreement to move the deadline for the submission of all deliverables of the project from end-March to end-April.

The banking sector, which was expected to object to a uniform 10% interest income tax rate on long-term, peso-denominated, financial paper, has declared its support for the move.

After the meeting with the CMDC Tax Concerns Committee, the team continued holding bilateral meetings with financial sector associations to discuss its sector-specific recommendations on achieving tax neutrality. It collected data from DOF, BIR and National Tax Research Center (NTRC) that it will use for analyzing revenue impacts of their proposals to achieve tax neutrality. They also went over the proposals incorporated in the Financial Intermediation Tax (FIT) bill which DOF wanted Congress to pass to find out if there are provisions that they can adopt for their proposed bill. Based on their preliminary assessment, the team seems to be leaning towards developing an omnibus financial taxation bill that will amend certain provisions of the National Internal Revenue Code rather than having 5 separate bills, due to the difficulty the proponents might encounter in pushing Congress to pass several bills all at the same time, not to mention the problem that might arise if some complementary bills are not passed immediately. These amendments will also be accompanied by suggested Bureau of Internal Revenue rulings that clarify the amendments and provide a framework for tax enforcers. The team will provide these amendments for discussion and endorsement by DOF.

Task 4.1.2.4d. Determining Appropriate Risk Weights for BSP's Standardized Approach to the Computation of Market Risk Capital Charges (Component A) and Financial Performance Benchmarks by Industry (Component B)

After securing USAID approval of this project in January 2007, Lamberte organized an inception meeting to ensure that BSP, EMERGE and the consultant, Dr. Ravalo, have common expectations of the project, review the deliverables, determine timelines for various activities and secure commitment from BSP to gather data needed for the project that are not publicly

available. During the quarter, BSP secured data from PDEX for Component A of the TA and the consultant submitted the following reports:

- a. Inception report;
- b. A technical review of the standardized approach for computing market risk capital charges on interest rate exposure in debt securities;
- c. A review of the credit rating/credit scoring models proposed by the Bankers Association of the Philippines to the BSP; and
- d. Validating the Standard Market Risk Model Parameters: Tests Using Philippine Government Issues, a report for Component A.

Mr. Prenio of BSP reviewed the reports (a) to (c) and sent his comments to the consultant for consideration. With respect to (d), Dr. Ravalo will personally present and discuss it with BSP officials including Deputy Governor Espenilla on 11 April 2007.

On Component B of the TA, the consultant met with Deputy Governor Nestor A. Espenilla, Jr., and Asst. Governor Dolly B. Yuvienco to discuss the technical framework and approach for the credit rating/scoring models. There was an agreement reached to proceed with the approach suggested by the consultant. This involves a basic financial screen involving the most fundamental financial indicators, testing the corporate and SME models under an integrated approach and allowing the empirical results to dictate behavioral differences. As regards the data requirement for this component, Mr. Prenio is confident that BSP can get data from LBP, DBP and SBC for the SME accounts, but he expects some problems in securing from private banks data on large corporate accounts for the past 5 years. So far, however, none of the banks requested to provide data has refused to cooperate.

Task 4.1.2.4e. SME Business Development Support Services: Geographic Indicators Code System

Clarete and Lamberte met with Atty. Prudence Kasala of BSP and Atty. Mario Dimagiba of the Bureau of Trade Regulation and Consumer Protection (DTI) to discuss the possibility of holding a national workshop to come up with a stable Geographic Indicators Code. While Atty. Kasala expressed BSP's interest in participating in the proposed workshop and possibly taking the lead role in making the workshop happen, Atty. Dimagiba thought that such concern does not belong to his bureau but to another office of DTI. He will therefore refer this proposed workshop to that proper office for action.

Lamberte and Clarete also met with NSCB Director General Virola and discussed the workshop on developing stable Geographic Indicators Code which EMERGE will possibly co-sponsor with the LAMP project. Dr. Virola expressed interest in joining the workshop and informed Clarete and Lamberte that NSCB has been using its own Geographic Indicators Code System for various administrative levels (i.e., from regional to barangay level). However, NSCB does not have codes for specific properties within a barangay. This is where the GIC developed by the LAMP project could help. The two systems can later be linked up and reflected in individual land titles. Dr. Virola is willing to present their GIC as an additional input to the workshop.

A half-day workshop is planned for this activity with key stakeholders such as BSP, NAMRIA, BIR, provincial and municipal assessors and lending institutions as participants.

Task 4.1.2.5 TA to BSP Department of Economic Research (DER) on Inflation Targeting and Monetary Policy

Lamberte prepared the draft project proposal for the follow-on work focusing on transmission channels and effects of monetary policy with Dr. Paul McNelis as the proposed consultant. USAID approved the proposal in February and in the following month, McNelis visited BSP to initiate the project. Lamberte, together with Callison, attended Dr. McNelis' exit briefing at the BSP. Dr. McNelis said that he has helped the BSP Center for Monetary and Financial Policy (CMFP) staff develop a generic proto-type dynamic general equilibrium model which they can start working on using Philippine data while he is away. During this visit, he trained BSP staff how to use the model in policy analysis. Shocks such as changes in the volume of remittances and productivity can be introduced into the model. He plans to come back in May and June to continue his work. At the end of the TA, BSP should have a small but operational dynamic general equilibrium model which can later be improved.

Task 4.2.1.1 TA to develop local government unit (LGU) financing (formerly Task 3.3.1.1 to help DOF/MDFO develop its LGU PROLEND Manual)

The PROLEND project Team Leader Raymund Fabre submitted the mock-ups for the MDFO PROLEND Information Material and Brochure to MDFO Executive Director Helena Habulan on January 11, 2006. The EMERGE PROLEND Brochure is now being reconciled with the original MDFO PROLEND Brochure. The harmonized brochure is also being improved through the addition of graphics and pictures as well as editorial changes to the textual content. The final version of the reconciled brochure will be sent to MDFO for final approval.

MDFO Executive Director Helen Habulan approved the basic format of the video presentation as having short speeches from key DOF officials at the beginning and the body consisting of the basic features of the PROLEND and a how-to on how to apply for a PROLEND loan.

EMERGE is also drafting a script outline for the VCD version of the PROLEND handbook for production and distribution to all LGUs and other clients of the MDFO.

Ms. Habulan sent a letter to Callison requesting a second phase of this activity. After meeting with Ms. Habulan and Dr. Llanto, Lamberte prepared a draft TOR for this activity with the following objectives:

1. Assist four (4) provincial governments package policy loan proposals (the provinces of Negros Occidental, Misamis Occidental, Mindoro Occidental and Rizal);
2. Revise the Operations Manual, as necessary, during the preparation of the policy loan proposals of the provincial governments; and
3. Present recommendations to the MDFO-PGB that would make the interest rate policy under the Operations Manual more competitive and attuned to prevailing rates.

EMERGE is waiting for approval of the second phase of this activity, a request for which was sent to USAID on March 12, 2007.

Task 4.2.1.2b TA to develop the rural and micro finance markets

Lamberte participated in six of the twelve regional consultation meetings with the cooperative sector for the draft ADR framework and implementation guidelines, the 2-day workshop of CoRe Group Foundation and the ADR-TWG and the 2-day CDA internal workshop, and give suggestions to CoRe Group Foundation to improve the drafts. Upon the request of NCC, he

prepared a TOR for the follow-on activity focusing on capacity building of CDA and cooperatives to implement the CDA-approved ADR implementation guidelines.

Lamberte joined the CDA database team in two regions to conduct field validation of the data gathered by the CDA regional staff using the Inspection Working Paper and gave his own assessments of the results of the focus group discussions for the team's consideration. He prepared the TOR for the pre-testing of the new CDA data collection instrument developed by the consultants which was approved by USAID, participated in pre-testing said instrument in three out of six regions visited by the team, and gave suggestions to the consultants to improve the instrument.

In response to NCC's request, Lamberte prepared a TOR for the conduct of corporate governance seminar for the CDA Board of Administrators and provided Ms. Robles a list of potential provider of seminar on corporate governance.

Lamberte worked closely with and provided guidance to the team preparing the basic training modules on regulation and supervision of cooperatives with savings and credit services. He reviewed the draft training modules and suggested to the consultants some materials that might be useful in preparing the training modules.

Lamberte attended coordination meetings conducted by the NCC Core Group, which oversees all TAs provided by EMERGE, CHF International, Japan Fund for Poverty Reduction and ADB under its Microfinance Development Project. The NCC Core Group aims to enhance synergy among the TAs to CDA and ensure proper sequencing of specific activities of these TAs to increase their effectiveness.

As requested by Tet Sanchez-Robielos, the EMERGE CTO at USAID, Lamberte prepared briefing material on EMERGE TA to CDA for her meeting with CHF International on 27 March 2007 and attended said meeting.

Task 4.2.1.2c Promoting and Instituting Alternative Dispute Resolution Mechanisms for the Cooperative Sector

Performance Milestone Achieved: *On March 20, 2007, the CDA Board of Administrators approved the ADR Framework for the cooperative sector and issued the following memorandum circular to all the CDA staff and cooperatives:*

- *MC 2007-05: Guidelines for the Implementation of conciliation-mediation of cooperative disputes at the primary cooperatives;*
- *MC 2007-04: Guidelines for the implementation of conciliation-mediation of cooperative disputes at unions/federations; and*
- *MC 2007-03: Guidelines for the implementation of conciliation-mediation of cooperative disputes at the Cooperative Development Authority.*

The Technical Working Group (TWG) of the Cooperative Development Authority (CDA) Alternative Dispute Resolution (ADR) project reviewed the drafts of the Framework for Developing ADR Mechanisms for the Cooperative Sector and the ADR Implementing Guidelines for primary cooperatives, federations/unions and CDA and approved their presentation to the CDA. During its meeting held 15 January 2007, the BOA approved the final draft of the ADR Framework for the cooperative sector and the preliminary drafts of the ADR Implementation Guidelines for presentation by the CoreGroup Foundation in the cooperative sector regional consultations. The CoreGroup Foundation conducted regional consultation

meetings for the ADR Implementing Guidelines in Baguio (about 100 coop representatives) and Bacoor, Pampanga (about 70 coop representatives), Quezon City (about 140 coop representatives), Cagayan de Oro City (about 100 coop representatives), and Cebu City (about 130 coop representatives) and Davao City (about 100 coop representatives).

The CoRe Group Foundation and the ADR-TWG conducted a 2-day workshop in Tagaytay to review the ADR Implementing Guidelines for primary cooperatives, unions/federations and CDA. The revised drafts that came out of the workshop were presented by CoRe Group's presentation of the three Guidelines to the CDA Board of Administrators (BOA) on 15 February 2007. During the meeting, the BOA unanimously approved in principle the ADR Implementing Guidelines for the primary cooperatives, unions/federations and the CDA as presented by the EMERGE consultant. CDA staff, most of whom come from the legal department of the CDA central office and neighboring CDA extension offices, conducted a 2-day workshop to ensure that none of the provisions in the draft Guidelines are inconsistent with existing laws and rules and regulations. The staff also edited the draft Guidelines to make them reader-friendly.

The BOA subsequently approved the drafts and issued the memorandum circulars listed above (in the Performance Milestones Achieved box) to all CDA staff and cooperatives.

During the 17th Anniversary Celebrations of the signing of RA 6938 (the Cooperative Code) and RA 6939, which created the Cooperative Development Authority Charter (CDA), on 10 March 2007 at the Sugar Regulatory Authority auditorium, CDA formally launched the ADR Framework and Implementing Guidelines.

CDA and EMERGE accepted CoRe Group's final report of this activity. This activity is therefore deemed completed.

Task 4.2.1.2d Evaluation and Assessment of the Database for the Cooperative Sector with Savings and Credit Services

Performance Milestone Achieved: CDA adopted the one-page information sheet which it dubs *Coop E-Link* and launched it during the 17th Anniversary Celebrations of the signing of the Cooperative Code and the Cooperative Development Authority Charter on 10 March 2007. CDA will use it to conduct a census of cooperatives prior to the conduct of a massive inspection using the newly developed data collection instrument.

The team completed the field validation of the data gathered by CDA using the Inspection Working Paper (IWP) and presented their findings first to NCC and a small group of CDA officials including Chairperson Juarez and later to the CDA Management Committee including senior officials from the CDA central and regional offices. Based on their findings, the team recommended the following:

- a. Suspend the second massive inspection of cooperatives using the existing Inspection Working Paper (IWP) planned for April 2007, because the instrument was found to have several weaknesses;
- b. Develop an entirely new data collection instrument that is able to collect information needed for the supervision and regulation of cooperatives; and
- c. Formulate a one-page information sheet with unique cooperative identification number (CIN) that will be administered in lieu of the massive inspection of cooperatives using the existing IWP. This will verify and establish a master list of operating cooperatives that will be subjected to supervision.

The CDA Management Committee accepted all three recommendations.

The team developed a new data collection instrument that replaces the IWP, the Annual Report and the General Information Sheet and pre-tested it in 13 primary cooperatives of varying asset sizes in the following areas: Laguna, Cagayan de Oro City, Iloilo, and Davao City. The team also conducted focus group discussions with CDA cooperative development specialists in the areas mentioned above to get their comments on the proposed data collection instrument and suggestions for improvement. The team revised the draft data collection instrument taking into account the results of the pre-test.

The team developed a one-page instrument which contains basic information about cooperatives, including a unique identification number for each cooperative. CDA will use it to come up with a census of cooperatives prior to the conduct of a massive inspection using the newly developed data collection instrument. CDA dubbed it Coop E-link and launched it during the 17th Anniversary Celebrations of the signing of the Cooperative Code and the Cooperative Development Authority Charter on 10 March 2007.

Task 4.2.1.2e Basic Training Courses on Supervision and Regulation of Cooperatives with Savings and Credit Services

The team submitted a draft report: “A Review of the Mandate of the Cooperative Authority and Approaches to Supervision of the Cooperatives with Savings and Credit Services” which will serve as a basis for developing basic training modules on regulation and supervision of cooperatives with savings and credit services. The draft was circulated to NCC and CDA for comments and presented by the team to the CDA-created Core Group and NCC to obtain guidance from them on how best to proceed with the preparation of the training modules.

Based on existing literature gathered and comments received, the team prepared and submitted detailed course descriptions for the 2-day training module for the CDA management and technical staff and the 1-day seminar for the CDA Board of Administrators. The team will prepare some exercises and case materials for the management and technical staff’s training module. With respect to the training of trainers who will train CDA’s cooperative development specialists, the course content will be the same as the 2-day training module but with more detailed topics on off-site and on-site examination processes and with more exercises and case materials. In addition, ample time will be devoted to honing the presentation skills of trainers.

NCC Executive Director Beltran sent a letter requesting BSP Deputy Governor Espenilla to allow some of the BSP staff to act as lecturers and resource persons for the basic training course on supervision and regulation of cooperatives. The team meanwhile has started identifying and discussing with potential lecturers/resource persons about specific topics and case materials to be included in the training modules.

Task 4.2.1.2f ADR Training Modules and ADR Training for CDA and Cooperatives

In response to NCC and CDA’s request for a follow-on activity of the ADR activity, Lamberte prepared a TOR that includes the following major activities:

- a. developing standard templates for the forms and reports needed for each of the three ADR Implementing Guidelines;
- b. formulating the Code of Standards and Ethical Practice for mediators;

- c. preparing a Primer for the three Implementing Guidelines that will serve as a reference for the installation, maintenance and monitoring of the cooperatives' Conciliation-Mediation Program;
- d. formulating plans and programs including a 3-year mediation development and training program to make the ADR system for the cooperative sector sustainable;
- e. designing training modules including training manuals; and
- f. training mediators and trainers.

The TOR was submitted to USAID for approval on March 23. CoRe Group has been proposed as the consultant firm for this activity.

Task 4.2.1.2g Corporate Governance Seminar for the CDA Board of Administrators

NCC requested EMERGE assistance to conduct a 3-day corporate governance seminar for the CDA Board of Administrators. EMERGE received USAID approval of the proposed TOR for this activity on March 30, 2007. Four BSP-accredited seminar providers on corporate governance submitted their proposals to EMERGE. The Selection Committee composed of representatives from NCC, CDA and EMERGE will meet on 3 April to deliberate on the four proposals and select the consultant for this activity.

TASK 2 - Administration of Grants to NGOs and Nongovernmental Research Institutions

RO 2.1 PACT proposal on Analysis of and Consensus-Building on Trade Negotiation Issues for U-ACT.

This activity is about developing an ASEAN negotiation framework for the private sector for eleven selected industries. During the quarter, PACT requested and was granted a realignment of the grant budget and a no-cost extension through April 30, 2007.

Task 2.2.1.4c Biotech proposal on FSBP Eggplant.

This activity is about conducting field testing to develop shoot borer-resistant eggplants in the Philippines from a technology developed by Mahyco in India, who has agreed to extend the technology to the Philippines on selected eggplant varieties. EMERGE assistance will fund the cost of moving the research through completion of NCBP requirements. UPLBFI submitted its first progress report on January 8 together with a request for reimbursement of expenses.

Task 2.2.1.5 Biotech proposal on sustaining science-based policy and regulatory system of biotechnology in the Philippines

A deviation on one of the terms of the Grant Agreement was incurred by the Grantee, ISAAA, which involved conducting the field survey under the name of Biotechnology of the Philippines (BCP). ISAAA corrected the deviation by submitting a justification.

Task 2.2.2.3a Investment Climate Improvement Project 1

This is a grant awarded to the American Chamber of Commerce (AmCham) of the Philippines to implement activities to identify and communicate to the Philippine government policy and legal reforms that will facilitate new investment and generate more employment. An editor/writer was hired to assist AmCham in preparing the final reports under the grant, which ended on Feb. 28.

Task 2.2.2.3b Investment Climate Improvement Project 2

This 2nd grant will identify problems in the Philippine investment environment and work toward the implementation of effective policy, procedural, organizational or legal solutions among the various stakeholders in the GRP and the private sector. Following USAID approval to award a 2nd grant to AmCham, the new Grant Agreement was executed between EMERGE and AmCham on March 1, 2007.

TASK 3 - Administration of the Special Activities Fund (SAF)

Fiscal Sustainability

Task 1.1.1.1. BIR One Time Transaction Tax (ONETTT)

A web-based application will be developed that will assist taxpayers to accurately self-assess their capital gains tax liabilities independent of tax officials and file the requisite forms with the BIR without presenting themselves at BIR offices. The activity has lagged for more than a year from its scheduled end date in January 2006. In a meeting on March 20, 2007, EMERGE and the vendor, E-KONEK, agreed on a timeline that will see the final completion and launch of the ONETTT system on May 16, 2007, at the RDO 39 in Quezon City.

Task 1.2.1.1. DBM Selected Agency Restructuring Plans Improved

This technical assistance involves strategic review of the operations and organizations of the executive branch of the government in accordance with EO 366. A considerable delay has been incurred in this activity due to 1) the delayed submission of rationalization plans from the government agencies, 2) the difficulty in finding and engaging a sector expert for the Department of Justice (DOJ), and 3) the lack of enough manpower in DBM to review the plans that have been submitted. EMERGE, DAP and the DBM agreed to re-visit the situation in May to make a final assessment of what could be realistically done, given the pending close down of EMERGE by June 30, 2007. Upon DBM's request and USAID approval, the funds intended for the justice sector expert were realigned to pay for hiring additional manpower to assist DBM in its review of the rationalization plans of various government agencies.

On Trade and Investment

Task 2.1.5.1 WTO e-learning

This TA to the DTI aimed to develop the capacity of government and civil society to understand and participate in international trade discussions and negotiations. The subcontract was closed during the quarter and final payment was made to the subcontractor, IATP, by the CARANA home office.

Task 2.1.4.1a Project Design for the Philippine Standards and Compliance Portal (S&CP), Phase 1

This TA is for the Bureau of Product Standards (BPS) to develop a system to make information on product technical regulations available, accessible and retrievable by the business sector. The PO of the EMERGE consultant detailed at the Bureau of Product Standards (BPI) was amended in January 2007 to reflect an increase in the scope of work and cost. USAID approval of a request for additional funding for the consultant, Mr. Oliver Malabanan, was received on Jan. 10.

Task 2.1.4.1b Project Design for the Philippine Standards and Compliance Portal (S&CP), Phase 2

The TOR for Phase 2 was approved by USAID on January 22, after which an organizational meeting was held among BPS, Systema and EMERGE. The group agreed on acceptability conditions of the Systema deliverables with consideration for inputs from BPS Steering Committee and EMERGE requirements. The portal will be temporarily hosted in the Systema domain until BPS procures the hardware for the portal. Systema committed to host the portal for a year from the date of EMERGE turnover to BPS. The group also agreed that while the system to be used will be open-sourced, it may have to choose to run the portal using the most common and least expensive platforms such as LINUX. The PO to Systema was finalized and executed in February 2007.

Task 2.1.2.3 Compliance to Kyoto Convention.

EMERGE agreed to share with PACT the costs of implementing activities to prepare the Philippines to be compliant with the Kyoto Convention. The PO to the vendor, Parayno Consulting Services, was amended to reflect a no-cost extension through February 28, 2007. The final report was accepted by EMERGE, and the PO was closed in March 2007.

Task 2.2.2.6a Mining, Transparency of Tax Payments

This activity will provide TA to the Chamber of Mines to improve the transparency of payments and receipts of mining taxes and other payments. A competitive bidding was conducted in January to hire an audit firm to undertake the SOW in the TOR. The R.S. Bernaldo & Associates firm was selected, and the PO was finalized and executed on February 23, 2007. Work was started by R.S. Bernaldo and Associates in the first week of March, 2007.

On Banking and Capital Markets

Task 4.1.2.4d Valuation and Risk Parameter Estimation for BSP—Basel 2 standards

This TA involves determination of risk weights for capital market charges and development of financial performance benchmarks in compliance with the Basel 2 Accord. EMERGE received USAID approval of this activity on January 17, after which work was started by the vendor. The vendor submitted the first and second deliverables of the activity, the technical merits of which were accepted by EMERGE, during the month in March 2007.

Task 4.2.1.2c. Promoting and Instituting Alternative Dispute Resolution Mechanisms for the Cooperative Sector

This activity is about the development of an alternative dispute resolution (ADR) mechanism at the primary, secondary and tertiary cooperative levels to decongest Cooperative Development Authority (CDA) dispute resolutions at the national level. Final payment to the vendor was processed in March 2007 with the submission and acceptance of the final report. The PO was closed in the same month.

Task 4.2.1.2f. Rural and Microfinance Market Development—NCC support, Phase 2

This activity is about training of the CDA and selected representatives from the cooperative sector on mediation to be conducted by the same consultant group that developed the ADR framework and guidelines. The technical and cost proposals were negotiated in March 2007, and the letter requesting USAID approval was sent out on March 23, 2007.

Task 4.2.1.2g Corporate Governance Course for the CDA

The CDA Board of Administrators (BOA) will be provided training on corporate governance to allow it to gain exposure and knowledge of current good governance approaches and policies. The course provider will be competitively selected from among those accredited by the BSP. USAID approval of the TOR was requested in March 2007. A review of bids will be organized for April 3, 2007.

Conferences, Seminars and Workshops

RR 2.1.1 IFEX Symposium, August 15, 2006

The account was closed in February after CITEM submitted the required documents, and final payment was made.

Participant Training: Improving and Expanding Housing Finance Systems, Wharton School, University of Pennsylvania

Ms. Ma. Belen S. Fabella's will be attending the program on Improving and Expanding Housing Finance Systems at the University of Pennsylvania on June 4-14, 2007. The program will provide Ms. Fabella, and consequently her agency, the Home Guarantee Corporation, with new perspectives for possible policy innovations in shelter provision and in the institutional, financial and managerial aspects of modern housing finance. EMERGE received USAID approval of the training on March 30, 2007.

TASK 4 - SO2 Monitoring, Assessment, Reporting

To show how Government has been successful in reforming areas under EMERGE assistance, Winnie Vicente consolidated records—graphs and write-ups--on 15 indicators so far, highlighting the most critical areas for policy reform to which USAID and other donors can respond. To document the impact of completed projects, Winnie is continually gathering information on the impact of tax administration reform projects with the BIR, completed Privatization transactions, Alternative Dispute Resolution and Cooperative Development Authority Database, our assistance on the BSP's Inflation Targeting, and Government Rationalization under Executive Order No. 366.

While having difficulty on quantifying the impact of EMERGE assistance on areas including the Reengineering of Procedures on Sanitary/Phytosanitary Measures, Customs Reforms—National Single Window and Revised Kyoto Convention, Mining, Financial Sector Reforms, and others, related indicators that do not exactly show EMERGE's expected results, where available, have been gathered for research purposes. Specific areas that have been studied last quarter like inter-island shipping and voice-over internet protocol were not touched in this quarter, as official data updates will only be available in April. To ensure complete coverage of EMERGE's milestones, our inventory of project accomplishments based on quarterly reports up to December 2006 was updated.

TASK 5 - Public Information and Consultations

The Public Information Manager accomplished the following tasks during the quarter:

Ronald wrote, edited, and finished the drafting of the following milestone success stories:

- on the Memorandum of Understanding signed recently between the Department of Agriculture (DA) and Department of Finance (DOF). The MOU calls for the designing and conducting a pilot implementation of the national single window (NSW) for the cargo clearance of regulated imported agricultural products. The milestone story was sent to Drs. Ramon Clarete and Stu Callison for review and approval. Dr. Clarete, however, suggested that instead of merely chronicling the signing of the MOA, the Project may want to wait for a more substantial result after the signing before sending a milestone story to USAID. Ronald agreed with the assessment and relayed the information to Dr. Stu Callison who concurred with Dr. Clarete's suggestion.
- the second milestone story on the community e-center in Kiangán Ifugao. The story focuses on the sustainability programs adopted by the CeC. It also tells about the success of the CeC in inviting tourists to their local festivals through Internet marketing.
- on the EMERGE TA to the Cooperative Development Authority, which released the guidelines on alternative dispute resolution (ADR) for cooperatives.
- on the Reference Access Offer (RAO) by the National Telecommunications Commission

Ronald also attended and helped document the following key events during the quarter:

- the pre-conference summit on the Philippines' accession to the Kyoto Convention being arranged by the Payano team as requested by Dr. Myrna Austria. He took photographs of the event which was attended by top Customs officials and industry partners including EMERGE, USAID and PCCI.
- a two-day trip in Cagayan de Oro of the LMIP team to assist team in developing an innovative approach in establishing a community e-center (CeC) that involves a local radio station.
- the press conference arranged by the Department of Trade and Industry and the PGTEP – project manager for the DTI's online training program on WTO. In the press conference, DTI Senior Undersecretary Tomas Aquino praised PGTEP for a job well done and thanked project supporters such as EMERGE for helping make the online training program a success.

5) Statement of Work: No change in the contract statement of work was made during this quarter.

B. Administrative Information

Since the Project Contract is a performance based, rather than a level-of-effort based, contract, administrative information is not required or reported.

Section II - PROJECT OFFICER'S COMMENTS (optional)

Project Officer/Office Symbol _____ **DATE:** _____

Section III - CONTRACT OFFICER'S COMMENTS (optional)

Contract Officer/Office Symbol _____ **DATE:** _____