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QUARTERLY PERFORMANCE REPORT

Contractor: CARANA Corp./Nathan Associates Inc.
Contract # AFP-I-00-03-00020-00 Delivery Order 800
Reporting Period: April 1 to June 31, 2007, including July & August activities

Preface

The EMERGE Team has used its quarterly reports as a cumulative record of its “Performance Milestones Achieved,” 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, the reports have become rather lengthy. We are therefore including 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.

The Contractor’s Report includes A.3 (a) Core Activities and Performance, listing the Performance Milestones Achieved (and still expected) by task. Some background material is presented on those tasks still underway at the beginning of the current reporting period. This section includes performance during the last quarter. It is 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 this is the final quarterly report of the original 3-year EMERGE contract, we have taken pains to include several activities which spilled over from the ostensible cut-off date of June 30, 2007, into June and July, made necessary by scheduling conflicts in June and made possible by the impending one-year extension of the contract, thus postponing actual close-out requirements until next year. In view of the fact that the four team leaders and the SO-2 Monitoring Manager will not be included in the extension year (nor will be the current chief of party), we deemed it wise to wrap up the initial contract activities in this quarterly and in a separate draft final report, so that the remaining team will only have to report the new activities funded in the extension period next year.

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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 June 30, 2007, was \$702,733.51.

On July 5, 2007, CARANA received a letter from the USAID/Philippines Supervisory Regional Contracting Officer proposing a one year extension of the task order with an additional \$980,550 in funding. This was subsequently increased to a total of \$1,330,550. CARANA was requested to submit a technical proposal and budget for the extension period.

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 was to develop specific performance indicators that are linked to policy actions actually taken in the course of the Activity. These indicators were included in each annual work plan, with targets specific to each task.

3) (a) Core Activities and Performance: The contract defines (in subsection 4.2.) the major task areas listed in paragraph 1) above. The following activities were those approved by the Policy Advisory Committee and USAID/Philippines in the EMERGE Annual Work Plans from September 2004 to June 2007 and were expected to be undertaken during the course of the project. This final quarterly report includes all of them, updating the discussions about current activities to include accomplishments through the end of July 2007.

Administrative Tasks

During the second quarter of 2007 EMERGE was to submit the quarterly report for the preceding quarter by April 30. It was submitted on May 1. At the beginning of the quarter it was still awaiting a response to a CARANA Corp. request for USAID/ORP approval of a revised EMERGE budget, submitted 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. This revision was approved by USAID/ORP on April 17, 2007.

TASK 1 - Policy Analysis and Technical Assistance (TA)

The 2007 Work Plan, like those of previous years, identified 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

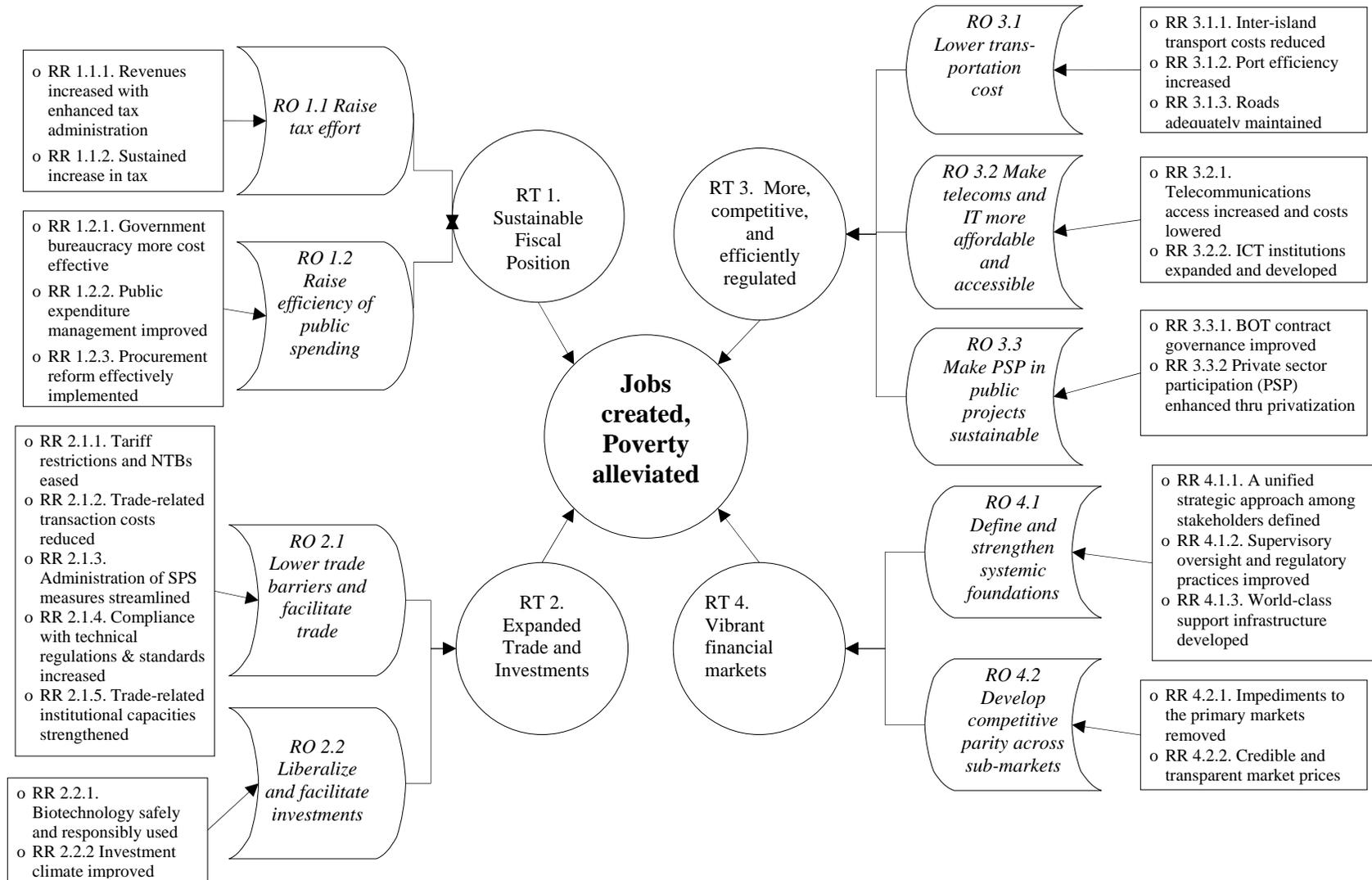


Table 1. EMERGE 2007 Technical Assistance Tasks

Reform Theme (RT)	Reform Objectives (RO)	Reform Results (RR)	Technical Assistance Tasks	
			clear cells	On-going tasks from previous WPs
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	Completed tasks
			1.1.1.3 Improving the administration systems of selected tax measures	Dropped from the Work Plan (WP)
			1.1.1.4 Aligning tax rulings with tax code, laws and regulations and streamlining the tax rulings process at the BIR	Tasks identified in 2007
			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)	
	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		
	1.2 Raise the efficiency of public spending	RR 1.2.1. Government bureaucracy more cost effective	1.2.1.1 Improving Agencies' Re-structuring Plans under EO 366	
		RR 1.2.2. Public expenditure management improved	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				

Table 1. EMERGE 2007 Technical Assistance Tasks

Reform Theme (RT)	Reform Objectives (RO)	Reform Results (RR)	Technical Assistance Tasks		
			clear cells	On-going tasks from previous WPs	
RT 3. More, Competitive and Efficiently Regulated Infrastructure		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	Completed tasks	
			2.1.4.1(b) Development and establishment of a standards and conformance (S&C) portal, Phase 2	Dropped from the Work Plan (WP)	
		RR 2.1.5 Trade-related institutional capacities strengthened	2.1.5.1 Philippine global trade e-learning program	Tasks identified in 2007	
	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		
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			
	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			

Table 1. EMERGE 2007 Technical Assistance Tasks

Reform Theme (RT)	Reform Objectives (RO)	Reform Results (RR)	Technical Assistance Tasks	
			clear cells	On-going tasks from previous WPs
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	Completed tasks
			4.1.1.1(b) Designing the Philippine Consumer Finance Survey	On-going tasks from previous WPs
			4.1.1.2(b)(c) Defining the Philippine Capital Market Reform Agenda	Completed tasks
			4.1.1.3(a) Undertaking a policy review of financial sector taxation, Phase 1	Completed tasks
			4.1.1.3(b) Undertaking a policy review of financial sector taxation, Phase 2	Completed tasks
		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	On-going tasks from previous WPs
			4.1.2.2 TA to the Securities and Exchange Commission (SEC) to enhance the regulation of the securities market	On-going tasks from previous WPs
			4.1.2.3 TA to the Philippine Deposit Insurance Corporation (PDIC) to develop its risk management and regulatory capacities	On-going tasks from previous WPs
			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	Completed tasks
			4.1.2.4(d) Valuation and risk parameter estimation for BSP – Basel II agreement	On-going tasks from previous WPs
			4.1.2.4(e) SME business development support services: Developing a stable Geographical Indicators Code of real estate properties	On-going tasks from previous WPs
			4.1.2.5(d) Developing a capability to track the transmission of monetary policies to the various sectors of the economy	On-going tasks from previous WPs
			4.1.2.6 TA to the Insurance Commission (IC) to improve its regulatory and operational efficiency	On-going tasks from previous WPs
			4.1.2.7 TA to the Department of Finance to enhance its capital market initiatives and its oversight over GOCCs and GFIs	On-going tasks from previous WPs
	RR 4.1.3 World-class support infrastructure developed	4.1.3.1 Defining the Standards and Infrastructure for Cash & Retail Payments	On-going tasks from previous WPs	
	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	On-going tasks from previous WPs
			4.2.1.2(a) Evaluation of the CPIP Project for NCC	Completed tasks
			4.2.1.2(b) Design and monitor microfinance portfolio	On-going tasks from previous WPs
			4.2.1.2(c) CDA - Alternative dispute resolution mechanisms for the cooperative sector	On-going tasks from previous WPs
			4.2.1.2(d) CDA - Database for cooperatives with savings and credit services	On-going tasks from previous WPs
			4.2.1.2(e) CDA - Training on supervision and regulation of cooperatives with savings and credit services	On-going tasks from previous WPs
			4.2.1.2(f) CDA – Development of ADR training modules and conduct of training	On-going tasks from previous WPs
		4.2.1.2(g) CDA – Corporate governance seminar for CDA Board of Administrators	On-going tasks from previous WPs	
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	On-going tasks from previous WPs	

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 computation of tax due based on declared information, taking into account the correct zonal valuation in the BIR's database, generate the applicable and tamper-proof tax form reflecting the correct amount of tax due, and enable a system generated and bar coded Certificate of Authority to Register (CAR). The application will be available to BIR clients on its website and allow the citizen/taxpayer to lodge a tax declaration of the real property. BIR will issue a Revenue Memorandum Order amending RMO 15-2003 to prescribe the new rules and regulations for the payment of the capital gains tax on real property as reflected in the ONETTT application.*

Implementation of this task started in the middle of 2005 following a competitive procurement process for a purchase order, which was awarded to E-Konek Pilipinas (EKP). The completion of the task was repeatedly delayed. The ONET³ application prototype was revised several times to accommodate the comments and suggestions given by the various stakeholders. Some of these required policy changes that took some time to resolve (e.g. one property-one Certificate Authorizing Registration policy; and use of ordinary paper with security mark and barcode in lieu of pre-printed forms). There had also been delays in the testing process due to the heavy workload of the Information Systems Group, which was attending to several systems development and enhancement projects in the BIR such as the e-ITS and e-FPS. There were also personnel changes in EKP, which slowed down the pace of the project.

The development of the ONET3 application program was an iterative process which took several rounds of testing by the BIR and revising by the EKP. On 17 April 2007, EKP submitted the final version of the ONET3 application to BIR incorporating all change requests from the users and fixes for the discrepancy logs from the quality assurance tests conducted by BIR. The ONET³ application and its database were then migrated into the BIR Oracle environment and test server. Some problems were encountered in the migration process but these were eventually solved.

On June 15, EKP and the BIR-ONET³ project team walked through the representatives of the BIR offices involved in the administration of one-time tax transactions on the different modules of the ONET³ application. Several meetings were also held for the preparation of an Operations Memorandum that will provide the guidelines in the soft-launch and pilot-testing of the application. The Operations Memo will be converted into a Revenue Memorandum Order, once the use of the ONET³ application becomes bureau-wide.

After a series of testing and fixing, the application was deemed ready for deployment to the production server (or web-server) and the BIR issued a product acceptance certificate for the ONET³ application. The deployment to the production server is the last stage prior to the soft-launch and pilot test. To date the ONET³ deployment is almost complete; only the links to the other databases of the BIR need to be established. The soft-launch of the ONET³ application in RDO39 in Quezon City has been scheduled in the third week of August.

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 respective treasurer's offices of the local government units, which maintain records of all transfer of certificate of titles (TCTs) in their jurisdictions.

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, 1.1.1.6, 1.1.1.7 and 1.1.1.8. 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

Performance Milestone Achieved: 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.

Expected Performance Milestone: The Secretary of Finance 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.

Then 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. Assistant Commissioner for Internal Revenue (ACIR) James 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 finalized in January 2007.

The consultants 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 or ATRS positively and proceeded to study its budgetary requirements. BIR subsequently included the ATRS 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 second component was to be a review of all the tax rulings issued by the BIR from 2002 to the present, which would update 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 ACIR James Roldan. He opined that a full review of tax rulings could not be accommodated by the remaining project life of EMERGE. 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. Further EMERGE technical assistance in this area was deemed unnecessary.

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.

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

USAID approved the terms of reference (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), which submitted a proposal for a grant, was awarded the 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 work pace and direction of this task 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.

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 of the Grantee submitted its Final Reports for this task in May 2007. They consist 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 memoranda 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.

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 its new LTFRB counterparts. The preparation of the unified chart of accounts was thus terminated.

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: Insurance Commissioner Evangeline Escobillo approved the database design and the project's final report. Commissioner Escobillo subsequently commenced with the implementation phase. The Commissioner 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.

This task is an offshoot of the AIM 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 did not have a database of insurance transactions and most of its process and operations were carried out manually, meaningful database reconciliation and exception reporting were 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 was to focus on the CTPL insurance.

A solution recommended by the partner agencies was the establishment of a database of CTPL transactions for the purpose of authenticating COCs prior to motor vehicle registration and the grant of land transport franchises. The information in the database may also be shared with BIR to help improve tax enforcement in the land transport sector. Since the establishment of such database was beyond the scope of the AIM project, IC Commissioner Evangeline Crisostomo-Escobillo requested EMERGE to assist in the preparation of the technical specifications and other requisite documentation for the establishment of the database. Thereafter, the database development proper would be conducted in-house and supported by the Insurance Fund.

EMERGE contracted a team of consultants for the task, which started in mid-October 2006 and was completed in January 2007. 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) 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.

A draft design of the compulsory insurance database and options for solving the problem on bogus CTPL coverage was completed. Commissioner Escobillo approved the database system's high-level specifications. Department of Transportation and Commission (DOTC) Secretary Leandro Mendoza and LTO Chief Reynaldo Berroya likewise agreed to the solution pertaining to the CTPL. The National Computer Center (NCC) approved the design of the proposed

database. The Land Bank of the Philippines (LBP), a prospective partner to handle premium payments, has likewise been oriented on the undertaking.

The database design and high-level specifications were subsequently used to prepare the terms of reference for bidding out the development of the database. To date, IC-hired information technology experts have set up the compulsory insurance database (LEVEL 1). IC and LBP have also entered into a memorandum of agreement for the development of an application linking the two agencies for the electronic payment of insurance premiums (LEVEL 2). LEVELS 3 and 4 will involve IC-LTO linkages for the validation of insurance coverage and for regular reconciliation of data on CTPL coverage and motor vehicle registration. A draft MOA among IC, LTO, and BIR has been drafted to support activities in these levels.

As July 24, 2007 approached, the date when the present quad-partite agreement on CTPL would expire, the DOTC Secretary surprised everyone by issuing DOTC Order No. 2007-28. Presented as the solution to the CTPL problem, the Department Order (a) makes LTO a sole agent for all CTPL insurance transactions; and (b) makes an un-named insurance company a monopoly in the CTPL business. The Philippine Insurers and Re-insurers Association (PIRA) decided to seek an order from the court to restrain the Secretary from implementing his Order.

In response to the lack of support from the industry, the DOTC Secretary deferred the implementation of his Order. He and the DOF Secretary agreed to implement an Interim Solution to the CTPL, which the industry supports. The IC is placed under the administrative supervision of the Finance Secretary, while the LTO is attached administratively to the DOTC.

Commissioner Escobillo supported as well the interim solution, knowing that the IC's Compulsory Insurance Database System (CIDS), which EMERGE helped the IC design, has still to undergo extensive testing. The IC has to agree with the LTO on the parameters of the connectivity. Escobillo through Circular Letter No. 12-2007 dated July 25, 2007 instructed all insurance companies in the CTPL business to follow the procedures prescribed by the interim solution to the CTPL problem.

The PIRA subsequently filed a case in court against the Transport and Communications Secretary and won a restraining order. However, it has yet to sign an agreement with the IT Services provider of LTO, Stradcom Corporation, to legally enable the electronic connectivity for the interim solution. Negotiations for the agreement hinge on the contentious "no TRO" provision. Despite this, PIRA and LTO have the connectivity and the interim solution has been implemented since July 25, 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

Performance Milestone Achieved: *The BIR management committee accepted and Secretary Margarito Teves agreed to use the study's finding and recommendation in preparing the terms of reference for contracting system integrators to set up the proposed system for establishing proof of cigarette excise tax payment. The platform could also be used to establish proof of payment of other excisable products.*

Having identified the strengthening of excise tax administration as a strategy to improve revenue collection performance and enhance taxpayer service, BIR requested for EMERGE assistance in identifying the most cost-effective system of institutionalizing the proof of tax payment by cigarette manufacturers and in codifying all existing revenue regulations and official issuances pertaining to the excise taxes of cigarette and tobacco products.

USAID approved this task on 12 September 2006. After discussions with BIR officials and staff to define the scope of the study and the terms of reference, the task was divided into two components. The first component consisted of an industry and systems study that will enable BIR to have a better benchmarking of the cigarette and tobacco industry, thus enabling it to select the most effective control system for the removal of cigarettes from the place of production and corresponding payment of excise taxes due. The focus was to be on the manufacturing process and the critical data, forms/ reports, and information systems commonly used by manufacturers, all of which bear on BIR's audit framework. The second component comprised the tasks of reviewing, harmonizing, and codifying all revenue regulations and official issuances pertaining to excise taxes of cigarettes and tobacco products.

First Component: Industry and Systems Study. After a bidding process, this component was contracted to the De La Salle University Center for Operations Research and Management Science (DLSU-CORMS). It has submitted its final integrative report made up of four sub-reports, namely (1) Assessment of the Philippine Cigarette Industry, (2) Comparative Methods for Estimating Potential Excise Tax Collection from the Philippine Cigarette Industry, (3) Assessment of the Current Cigarette Manufacturing Process and Activities of the Revenue Officers on Premises (ROOP), and (4) Comparative Assessment of Technologies in Implementing the Excise Tax Proof of Payment.

The final integrative report was presented to the BIR management committee on May 10, 2007. The committee considered the study to be timely and useful since Congress has inquired why the Bureau has not implemented the provision of the 1997 comprehensive tax reform law on the establishment of proof of payment of excise taxes on cigarettes. The findings of the study will help in evaluating proposals from vendors offering relevant services and technologies.

The study's findings and recommendation were separately presented to Finance Secretary Gary B. Teves on July 30, 2007. It was noted that because of the limited in-house capacity of BIR, the setting up of the proposed system for establishing proof of excise tax payment will have to be contracted out. The findings of the study will be used to draft the terms of reference for this purpose.

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 BIR has both the legal and administrative expertise on excise taxes, the task force will internally cause the codification. In lieu of consultants for the codification work, Mr. Item requested research assistance in the tedious preliminary task of collating and comparing the provisions of the various issuances.

EMERGE subsequently engaged a research assistant for the task of collating, organizing, and encoding the pertinent issuances, following a format prescribed by Mr. Item. The work was completed and submitted to him in March 2007.

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

The Tax Compliance and Verification Drive, more popularly known as tax mapping, was launched by BIR in 2003 to expand the tax base, improve taxpayer compliance, and boost collection. The drive is largely carried out by fielding revenue officers to monitor the tax compliance of business establishments nationwide. The Mobile Revenue Officer System (MROS), introduced in 2004, allowed revenue officers on the field access to the BIR data warehouse and validate taxpayer information through mobile technology. Onsite findings by revenue officers, in turn, could be recorded and immediately reported to the national office. Since 2003, BIR was able to detect the tax delinquency of over 60,000 firms.

Performance Milestone Achieved: *Improvements in the planning, conduct, monitoring and reporting of tax mapping activities were adopted and subsequently incorporated in the design of the enhanced Mobile Revenue Officer System (e-MROS) application, which had been pilot tested and being readied for adoption bureau-wide. A draft revenue memorandum order institutionalizing the improvements in TCVD and use of e-MROS has been drafted for signature of the Commissioner of Internal Revenue.*

These accomplishments notwithstanding, BIR subsequently determined that the TCVD processes and MROS design could be improved to maximize benefits from mobile technology. Together with DLSU and through a limited grant from the Alfredo Yuchengco Foundation, BIR was able to ascertain the needs of MROS users and other stakeholders.

To further study and implement the desired TCVD improvements, BIR requested for EMERGE technical assistance to (1) define the service requirements for the TCVD process, (2) design an enhanced TCVD process for the effective use of MROS, and (3) develop and initialize the implementation of the enhanced MROS. The technical assistance task was approved by USAID on May 17, 2006 and commenced on June 6 of the same year. It consisted of two phases. The first phase was to consist of reengineering TCVD processes and the second phase was to consist of the automation of the reengineered TCVD processes. The DLSU College of Computer Studies and Department of Industrial Engineering were contracted by EMERGE for the undertaking.

First Phase: Reengineering of TCVD Processes. Workshops with BIR project counterparts in the office of DCIR for Operations Lilia Hefti, Tax Reform Administration Group (TRAG), Taxpayers Assistance Service (TAS), and revenue district offices identified specific improvements to the TCVD processes and related reporting procedures. 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. 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 systems enhancements, which evolved from MROS, were presented to the Information Systems Group (ISG), which made suggestions on zone naming, report generation procedures, database fields for payments through the banking system, synchronization of national and regional office databases, software acceptance procedures, and minimizing conflicts between BIR's Integrated Tax System (e-ITS) and the e-TCVD. The TCVD application subsequently passed systems and functional testing by ISG, obtained the approval of the Operations Group (OG), and passed quality assurance testing by the Quality Assurance Division (QAD). It is already running in the BIR Development Server and is linked to the BIR e-ITS. On April 23, 2007, TCVD consultants conducted a management training session for BIR officials on the new processes and their accompanying mobile and desktop applications. On April 25, 2007, a technical training session on the design and maintenance of the applications was held for ISG personnel. On May 23, 2007, e-TCVD was successfully pilot-tested in selected establishments in the Makati City commercial/ business district. The e-TCVD is counted among BIR's flagship programs for 2007.

The consulting team's final report has been submitted, reviewed, and found to be compliant with the project's terms of reference. The findings have been presented to the BIR management committee and Metro Manila regional directors and regional district officers. The consultants also presented a draft guide book for both revenue officers and business establishments, which define their respective rights and obligations in the tax mapping activity. A draft RMO that would formally institute the reforms has also been approved in principle. DCIR Lilian Hefti was tasked to finalize the RMO.

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

Performance Milestone Achieved: *An IFRS-consistent tax accounting manual was developed. A trainers' training of 120 revenue officers who constitute the Core Instructor Group, which is to be responsible for the roll out of the training to the various BIR offices around the country, was conducted.*

SGV was contracted to provide technical assistance to help the Bureau of Internal Revenue (BIR) harmonize the Philippine tax rules and regulations with the new International Financial Reporting Standards (IFRS) and new Philippine Accounting Standards (PAS), subject to the National Internal Revenue Code; and to develop a training program for BIR tax agents and auditors that would provide them a comprehensive and uniform base of understanding of the new accounting principles and standards and their tax implications. 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. The second phase would be the training proper for a Core Instructor Group to roll out training in the new standards to the various BIR offices around the country.

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 developed by SGV. The training modules covered 46 topics pertaining to the IFRS principles and accounting standards, the corresponding Philippines' tax accounting standards, and the BIR's position where there are conflicts between the two systems. The training materials include Microsoft PowerPoint slides, case studies, and other handouts used to facilitate the discussion. The materials were finalized in the last week of April 2007.

Phase 2. Bureau-Wide Training. The training proper for the Core Group of Instructors was conducted in two batches: May 7-22 for the first batch, and May 28-June 8 for the second batch. The participants consisted of revenue officers from the national, regional and district offices of the BIR.

A diagnostic test was given to the participants before the start of the training, and the same set of questions was given at the end of the training to measure the level of comprehension of the discussed accounting concepts and income tax implications. The diagnostic test contained 20 questions. To the left are the results of the diagnostic test taken of the participants.

Average Score				
	Pre-test		Post-test	
	Raw Score		Raw Score	
<i>Batch 1</i>	12.8	64%	15.3	76%
<i>Batch 2</i>	11.0	55%	16.0	80%

A graduation ceremony was held on June 8. About 120 participants completed the training. Deputy Commissioner Lilian Hefti, who subsequently was appointed as the Officer in Charge (OIC) Commissioner of the BIR, thanked USAID and EMERGE for the assistance and reiterated how important it was for BIR staff and agents to understand the tax reporting and audit implications of the new reporting standards, which are already being used by the private sector.

The SGV consultants completed its technical assistance task with the submission of a final report consisting of: 1) documentation of the trainings conducted, 2) complete set of training materials (slides, handouts, case studies and solutions, quiz questions and answers), and 3) proposed roll out strategy of the training.

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))

EMERGE completed this task 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)

EMERGE completed this task 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 May 30, 2006.

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

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, Phase II

The consultants provided a “Second Wave” of technical assistance to help the Bureau of Internal Revenue (BIR) install an Office Performance Management System nationwide. The task built on the First Wave of the project and additionally covered offices (at the Group level) at the National Office. The goal was to assist the BIR in implementing the Performance Attrition Act (PAA), specifically in two areas: (1) designing a system to distribute rewards in the event the Bureau exceeded its collection targets, and (2) installing a system for rating the performance of offices. The objective was to help BIR management officials improve and sustain the level of BIR performance through better office target setting, performance management and documentation, performance evaluation and rewards allocation.

The expected outputs of the technical assistance were: 1) Refined Office Templates for Revenue Regions (RRs) and Revenue District Offices (RDOs); 2) Office Templates for the Operations Group (OG), Legal and Inspection Group (LIG), Information Systems Group (ISG) and Resource Management Group (RMG); 3) Finalized Rewards Framework; 4) PMS Guidebook; 5) RMOs on the OPMS and Rewards; 6) Enhanced Performance Management Information System (PMIS); and 7) PMS Briefing Design and Communicators Kit.

The Second Wave of technical assistance ran from September 2006 to May 2007. It consisted of weekly coaching sessions with the assistant commissioners, division chiefs, assistant division chiefs and section chiefs of the various groups and offices in the BIR. The PMS project team consisting of the consultants and their BIR counterparts also held regular presentation to the BIR Management Committee of its progress and outputs.

The consultants formally rounded up its technical assistance with the submission of the Office Performance Management System (OPMS) Guidebook, which summarized the activities and outputs of the technical assistance rendered. The guidebook contains the various PMS tools, which include strategy maps, office performance contract and evaluation report templates, performance measure dictionaries, rewards framework and simulation. It also contains the functional specification requirements and user’s guide and of the Performance Management Information System (PMIS), a web-based database application program designed to facilitate the encoding and processing of measurement data to arrive at performance ratings for offices, officials and employees of the bureau.

In summary, all the project deliverables contained in the project’s term of reference were completed except for the PMIS user acceptance testing to be conducted by the BIR. The project team member involved in the development of PMIS continued to work with their BIR counterparts and assured them that they would be available for consultation, even outside of the duration of the project.

The consultants noted that the officials and staff of the BIR were very laidback in the installation of PMS in the Bureau. They may have been distracted by the pressure of meeting the Bureau’s revenue target. The lack of enthusiasm about the PMS could also be due to its association with the lateral attrition law, which in the first place, has not been consistently moved forward by the

DOF-led Revenue Performance Evaluation Board (RPEB). The institutionalization of PMS at the BIR will be facilitated with the appropriate pressure from the RPEB.

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 EMERGE technical assistance on the BIR Performance Management System (PMS) was envisioned to contribute towards the implementation of the Performance Attrition Act (Republic Act No. 9335). The law seeks to improve the revenue generation capability and collection performance of BIR and the Bureau of Customs (BOC), respectively, through a rewards and attrition scheme. However, the PMS technical assistance covers only office performance measurement, evaluation, and rewards. It does not cover revenue goal allocation assignments to which these PMS components should be hinged on. Inherent in the Lateral Attrition Law is the assumption of the presence and acceptance of rationally allocated goals. Moreover, the law adds to regional goal allocation, that of allocation to individuals (officials and employees). Thus, EMERGE was requested to provide technical assistance on designing a rational system for revenue goal allocation. USAID approved the task on January 19, 2007 and work started later that month.

The task was designed with two components. The first component was to recommend an interim revenue goal allocation to districts, officials, and employees for CY 2007. The second component was to recommend a long-term revenue goal allocation system to districts, officials, and employees for CY 2008 and beyond. Performance milestones include the acceptance by BIR of the recommendations for interim and long-term goal allocation systems and the issuance of an RMO as a formal transmittal of the goal assignments to the concerned districts, officials, and employees.

First Component: Interim Revenue Goal Allocation (CY 2007). An alternative statistical and formula-based goal allocation scheme and simulation results were presented by the EMERGE consultants to the Statistics Division of the Policy and Planning Staff on January 23, 2007, to regional directors and district officers on February 24, 2007, and to the BIR management committee on February 19, 2007. The features of the alternative scheme are the (1) use of historical collection data versus data of the immediately preceding year to capture patterns indicative of relative revenue capacities, (2) use of estimates versus actual data on non-recurring transactions to skip the extremely time-consuming and tedious verification process, (3) clustering of revenue regions to arrive at stable patterns of collection performance, and (4) averaging regional contribution to growth in overall collection to determine regional goal allocation. Simulations under this scheme were compared to those under *status quo*. Results suggest that the alternative goal allocation scheme, which is less tedious and time consuming, may be used to draw the initial revenue goal allocations that could be immediately issued at the beginning of the year. Following the current practice, the initial revenue goal allocations could be subsequently modified mid-year based on actual collections and other relevant developments in the first semester.

The consultants likewise closely monitored the issuance of the RMO on the allocation of the 2007 revenue goal. The allocation method under the *status quo* was adhered to because of reluctance by BIR counterparts who claimed that they needed more time to familiarize

themselves with and introduce the proposed system to all stakeholders; moreover, several revisions on goal allocations were made to accommodate requests from the regions and districts. On April 27, a closed-door command conference attended by regional directors and district officers was held and an RMO on the 2007 goal allocation was subsequently issued. A comparison of goal allocations under the *status quo* and the alternative presented by the consultants is found in the project's final integrative report. The report also contains the framework and data used in the study.

Second Component: Long-Term Revenue Goal Allocation (CY 2008 and beyond).

Recommendations for a long-term revenue goal allocation system were also presented to BIR counterparts. The basic recommendation for regional goal allocation is to veer towards an allocation scheme based on revenue capacity. Several measures of revenue capacity were explored, such as that under the Representative Revenue System of the United States Advisory Council for Intergovernmental Relations. For individual goal allocation in the intermediate term, the office collection target could be the shared target of all attributable individuals in the office. If a revenue district office fails to meet its collection, then all individuals in that office should be candidates for attrition. An individual will be recommended for attrition or not, depending on his/her PMS or personnel evaluation system (PES) rating. Over the long-term, an individual's goal could be a combination of the unit collection goal, i.e., shared goal and individual key performance indicators. The weights of the performance indicators will vary depending on the position or actual duty of the individual.

BIR counterparts have been furnished with a copy of the final integrative report. BIR management and the Policy and Planning Staff were provided with a framework, comprehensive review, and alternative methodologies corresponding simulations for working out the annual revenue goal allocations for districts, officials, and employees. Prescriptions for defining attrition criteria were also provided. BIR staff acquired capability to independently implement alternative statistical and formula-based goal allocation schemes.

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

Performance Milestone Achieved: *Restructuring plans of selected Departments and their attached agencies were refined and improved with TA from DAP and sector experts.*

Expected Performance Milestone: *DBM and CSC will submit refined agency restructuring plans to the President for approval.*

Executive Order 366 (series of 2004) directed a strategic review of the operations and organizations of the executive branch. Pursuant to the E.O. all departments/agencies were required to prepare a rationalization plan which shall contain the intended shifts in their functions, programs, projects, activities, organizational units, agencies, staffing and personnel. Department/agency rationalization plans would be submitted to the Department of Budget and Management for review, to ensure their consistency with the objectives of the rationalization program. The DBM, in coordination with the Civil Service Commission and, with the Department

of Finance in the case of government-owned and/or-controlled corporations (GOCCs), shall submit its recommendations to the President.

In this regard, the Department of Budget and Management, through the Development Academy of the Philippines and with support from the USAID through its EMERGE project, engaged sector experts to augment its capability to evaluate and recommend measures to rationalize the executive departments. DAP was able to mobilize thirteen sector and three sub-sector experts covering the following sectors: Agriculture and Land Reform, Culture and the Arts, Defense, Peace and Order, Interior and Local Government, Education, Environment, Finance, Foreign Relations, Health, Labor and Employment, Science and Technology, Trade, Industry and Tourism, and Transportation, Communication and Public Works.

The sector experts consisted of eminent persons who had held key government positions in the sector where they were assigned. The sector experts conducted the strategic sector reviews, prepared sector and sub-sector profiles and guided the DBM Composite Teams in assessing the rationalization proposals and enhancing the plans of departments/agencies prior to approval.

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 to be lenient with the deadline for the submission of rationalization plans. As of 30 July 2007, the status of submissions of agency rationalization plans was as follows:

Status of Implementation of the Government Rationalization Program under EO 366						
STATUS	DEPARTMENTS	OTHER EXECUTIVE OFFICES / AGENCIES (OEO/As)	GOCCs	TOTAL		
				NO.	%	
A. Plans Submitted to DBM	19	28	35	82	74.5%	
Approved by DBM	2	13	7	22	20.0%	
B. Plans not yet Submitted	2	1	25	28	25.5%	
TOTAL	21	29	60	110	100.0%	

Of the 82 agency rationalization plans submitted, 22 have been approved. 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.

On June 30, DAP formally closed its technical assistance, with the submission of its project completion report. It should be noted that despite the consummation of the experts' contracts, they have expressed their interest to continually help the change management teams in the implementation of the Rationalization Program, particularly on the aspect of plan evaluation.

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 a 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 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 was 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. Mr. John Pfeiffer, a senior OMB staff member, was deemed to be most suitable person available for the task given his background and experience.

Mr. Pfeiffer carried out the technical assistance on March 12-28, 2007. He held a series of meetings with senior DBM officials and staff, and consultants from the Australian Aid Agency to learn more about the work of the DBM, in particular the DBM's principal budget reform initiative, the Organizational Performance Indicator Framework (OPIF).

Aside from conducting presentations/orientation sessions on PART to DBM officials and staff, the consultants had meetings with Undersecretary Laura Pascua. They compared the work of DBM and OMB, and shared lessons on improving the budget process, particularly the shift from an input-oriented to an output- and outcome-oriented budget.

On March 27, Mr. Pfeiffer made a final presentation to DBM senior staff on the OMB PART, its implementation by the U.S. Office of Management and Budget (OMB) in the context of other Presidential management reforms, and ways that the PART might be adapted and used by DBM to support its ongoing fiscal reform initiatives, particularly the OPIF. He gave detailed answers to questions raised during the session and in informal conversations with participants.

The consultant completed the technical assistance by submitting a final report. The report pointed to the specific features of the PART that can enhance the effectiveness of OPIF, as well as the implementation issues that he foresees in the adoption of PART by the DBM, and his recommendations. He also submitted copies of his presentations and other reference materials on the PART and the US Government Budget.

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, she said, PART concepts and practices could be formally incorporated in DBM's Organizational Performance Indicators Framework (OPIF) and the Medium-Term Expenditure Framework (MTEF).

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 Laura Pascua preferred that the training on the use of an economic model to be used for revenue forecasting, which Mr. Jem Armovit developed, 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. However, Usec Pascua 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 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

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. 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 facility is expected to strengthen managerial control and oversight, and achieve greater transparency and accountability in budget administration.

In subsequent consultations between DBM and EMERGE, it was agreed that TA will focus on the tracking of fund releases from lump-sum appropriations, in order to increase transparency and accountability of its utilization. The task will consist of two major components: (1) design and development of information systems that will streamline and automate the budget releasing process for projects funded out of the lump-sum appropriations, and (2) providing DBM's website with a Content Management System (CMS) to facilitate the updating of fund release information on the website. The technical assistance request was reiterated by the new DBM Secretary Rolando Andaya. Together with Assistant Secretary (Asec) Mariliza Reyes and other DBM officials, EMERGE undertook bidding procedures and selected Asiagate, Inc. to carry out the task.

The task was formally launched on October 25 and dubbed as "eLAMP" (electronic Lump-Sum Appropriations Management Program). A business group and a steering committee consisting of representatives from five Budget Management Bureaus of DBM were created to work with the

project consultant. The steering committee composed of the bureau directors, and headed by Assistant Secretary Reyes, provided overall direction to the project.

The months of November and December 2006 were dedicated to studying current methods of processing budget releases for the lump-sum appropriations covered in the project, namely: Priority Development Assistance Funds (PDAF), Internal Revenue Allotment (IRA), Department of Public Works and Highways-Congressional Allocation (DPWH-CA) and School Building Program (SBP).

The period from January to April 2007 was dedicated to identifying user requirements, system design and validation. Development started in May throughout June, with Testing and Training spilling over to the first half of July 2007 with various business group members.

Activities	Duration	Parties Involved	Output
Data Gathering through Field Interviews, surveys, Focus Group Discussions	October 30-December 21, 2006	Steering Committee Business Group	Project Initiation Report, Diagnostic Report
Requirements Definition, Systems Development and Design	January 8, 2007- April 27, 2007	Steering Committee Business Group	Functional Specifications Document (FSD) for IRA, PDAF, DPWH-CA, SBP Technical Specifications Document (TSD)-Consolidated CMS Specifications Test Plan
Development	April 28-June 15, 2007	Asiagate	eLAMP Application CMS Central Office Website Templates (48) Regional Office Website Templates (11)
Data Migration	June 15-June 30, 2007	Asiagate	Transfer of old website data (2.0 GB) to new website
Testing and Training	June 15- July 4, 2007	Steering Committee Business Group	Acceptance Certificate Training Sessions User Manual- CMS User Manual- eLAMP
Deployment	5-Jul-07	Business Group	Installation on Test Servers

The CMS/Website and eLAMP systems were presented to the DBM Senior Officials Council (SOC) composed of the DBM secretary, undersecretaries, and assistant secretaries. The DBM SOC positively received the presentation and expressed its interest in extending the application to other DBM-managed lump sum funds, such as the Bicol rehabilitation fund.

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 vis-a-vis bidding documents, as well as misaligned provisions in either the manuals or bidding documents used in accordance with the law. This matrix 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 2006 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, 2006, 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, 2006, and December 13, 2006. 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.

However, given the remaining time left for EMERGE to close its technical activities by the end of June 2007, EMERGE was 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 development partners 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, found that this was 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.

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 2006, following the decision and agreement made during the 10 November 2005 meeting of USAID, EMERGE and CEPR to close it after the completion of the 3rd tranche deliverables. The EMERGE TA and the activities of the CEPR consultant team at the Bureau of Customs (BOC) changed direction due to the change in leadership at the bureau. This affected the team's deliverables in all three modules of the purchase order (PO). The TOR was designed based on the TA requested by the then Commissioner Alberto Lina, who resigned on July 8, 2005. But then Acting Commissioner Alex Arevalo expressed his preference for TA activities that differed from those identified in the TOR.

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

Performance Milestones Achieved: 1) *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.*
2) *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.*

This task was in response to the request of the Export Development Council (EDC) to assess the applicability and compliance of the Philippines with the Protocol of Amendment to the International Convention on the Simplification and Harmonization of Customs Procedures, or the so called Revised Kyoto Convention (RKC). The TOR was approved by the USAID in May 2006.

EMERGE hired the services of the Parayno Consulting Inc. to render the TA. The team undertook the following analysis. (i) the applicability of the RKC to the Philippine situation; (ii) the compliance or non-compliance of the Philippines on those standards of the RKC which are applicable to the Philippines; and (iii) for those the Philippines is already compliant, whether or not there is a need for the Philippines to improve its compliance; and for those the country is not compliant, whether there is a need for the country to be compliant.

The outputs of the TA were used as inputs to the preparation of a national strategy paper by PACT for the country's compliance to the RKC.

The Parayno team 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 highlight of the TA was the presentation of the team's findings during the RKC Pre-Summit held on 30 January 2007 and the Summit the Philippine National Strategy for Compliance with the RKC held on 5 February 2007. The Pre-Summit 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 activity were: (i) to validate the findings and recommendations of the Parayno team; 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 RKC. 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.

During the Summit, 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.

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

Performance Milestones Achieved: 1) *The consultant team, together with its BOC counterpart, drafted the rules and regulations governing the Voluntary Disclosure Program. The policy document, embodied in Customs Administrative Order No. 5-2007 was approved and issued by the Department of Finance (DOF) on May 29, 2007.*

2) *The composite team also drafted the implementing regulations for the Program. The initial draft was presented in a workshop attended by the PEAG staff and Deputy Collectors for Assessment of the three metro ports: Port of Manila (POM), Manila International Container Port (MICP) and the Ninoy Aquino International Airport (NAIA). The amended draft, based on the inputs of the workshop participants, was submitted to the Commissioner, signed and issued as Customs Memorandum Order No. 18-2007 on July 6, 2007.*

This task aimed 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 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 expected to complete it in June 2007. On the basis of their meetings with the Officer in Charge of the PEAG, Atty. Ligon, the BOC PEAG II team developed its work plan to focus on the following:

- Voluntary Disclosure Program;
- Audit Manual and Process Enhancement;
- Training Needs Analysis and Design; and
- Reference Library.

The following are the team's accomplishments:

Voluntary Disclosure Program

The consultant team, together with its BOC counterpart, drafted the rules and regulations governing the Voluntary Disclosure Program. The policy document, embodied in Customs Administrative Order No. 5-2007, was approved and issued by the Department of Finance (DOF) on May 29, 2007.

The composite team also drafted the implementing regulations for the Program. The initial draft was presented in a workshop attended by the PEAG staff and Deputy Collectors for Assessment of the three metro ports: Port of Manila (POM), Manila International Container Port (MICP) and the Ninoy Aquino International Airport (NAIA). The amended draft, based on the inputs of the workshop participants, was submitted to the Commissioner, signed and issued as Customs Memorandum Order No. 18-2007 on July 6, 2007.

Voluntary disclosure is an international customs best practice that enables importers to be more compliant with customs rules in a non-adversarial fashion. The program provides bona fide importers with the opportunity to voluntarily disclose to customs any underpayment of duties and taxes without waiting to be selected under the post entry audit program of the Bureau of Customs.

To qualified importers the incentive to file a voluntary disclosure consists of the non-imposition of penalties for the underpayments as disclosed, subject to due verification as to its accuracy and completeness. Also, importers availing of the program are given a last priority status for post entry audit under certain conditions.

To prevent abuse, the program excluded certain companies and import transactions from its mantle. These companies and import declarations are those already covered by a final assessment issued by the Commissioner of Customs or the subject of pending ruling requests with the Customs Valuation Classification Review and Ruling Committee or any other similar customs office; those covered by cases already filed and pending in courts; those which have already been issued Audit Notification Letters (ANL) and are currently undergoing enforced compliance audit; and importations tainted with fraud.

On the side of the Bureau of Customs, Voluntary Disclosure seeks to promote voluntary compliance, and in so doing, improve the bureau's revenue generation efforts through immediate payment and collection of delinquencies in duties and taxes without the need to undertake a resource-intensive full compliance audit.

Audit Manual and Process Enhancement

As a supplement to existing procedures followed by the PEAG staff, the consultant team introduced materials on three key areas of the work of the staff, namely a) annual audit plan; b) profiling and selection of auditees; and, c) field audit.

To promote ownership of the reforms, the consultant team conducted workshops on the following: 1) Audit Toolkit; 2) Risk Profiling; and, 3) Management Reporting.

Audit Toolkit

The Audit Toolkit consists of the following:

- Audit Questionnaire provides a guide and outline for customs issue identification during pre-audit conference. It is structured in such a way as to ensure that all potential areas for customs declaration errors are covered.
- Workplan detailing the sequential steps and processes that should be undertaken during audit. This is designed in such a way as to enable the audit team to optimize the use of field audit time through a focused approach to audit verification.
- Audit work schedule and management plan to assist auditors and keep track of hours spent in the various stages of audit. This is crafted to help the audit team and the audit management to allocate and manage the limited time and meager resources of PEAG as against the number of companies/entities programmed for audit.

The workshop provided a venue for ventilating and clarifying procedural issues encountered in the process of field audits.

Risk Profiling

A series of four workshops conducted on risk profiling was designed to assist the Trade Information Risk Analysis Office (TIRAO) in an iterative process of identifying, estimating and ranking risks, as a prelude to the selection of auditees from a broader perspective.

Participants were divided into groups and assigned to make a presentation of six identified risk areas each.

The exercise succeeded in identifying the general areas of customs risk, classing them together according to commodity and nature of the importing entity, and drilling the risks down to as many specific potential customs issues that could arise from such risk areas. The specific risks as identified were then measured against (1) level of occurrence; (2) impact on revenue; (3) source of information; and (4) level of difficulty of information access.

The output of the exercise could serve as a reference document in the development of a periodic audit program and/or in the audit selection.

Management Reporting

The last workshop was conducted to review the format of the Audit Notification Letter (ANL) and the Final Audit Report and Recommendations (FARR). The consultant team presented recommended format of these forms and incorporated them into the PEAG Operating Guidelines.

The team likewise crafted a management reporting system for the Commissioner to advise him of work progress pertaining to profiling and field audit activities of PEAG.

Training Needs Analysis and Design

The training program produced by the consultant team includes both skills- and knowledge-based learning. It is designed to address both the technical skills and knowledge requirements of the jobs within PEAG, and to enable the staff to work efficiently as a team. It covers a wide range of areas, some of which may be optional, subject to PEAG management's assessment. Based on discussions with the staff, the most urgently needed training is those for ongoing operations, i.e. customs operations and customs audit.

The training program is differentiated into basic, intermediate and advanced levels. Each of these levels needs to be placed in the context of the office environment, and conducted simultaneously with organizational development and systems building, e.g. in risk management, performance evaluation, and audit operations.

The consultant team conducted a training needs survey to gather feedback on the degree of confidence among the PEAG staff over various skills and knowledge related to PEAG core functions.

Reference Library

The consultant team compiled e-customs references and handed these over to PEAG management. The references consist of the following:

1. Legal text of WTO Agreement on Customs Valuation including sections on rules of origin, safeguards, anti-dumping, licensing procedures, pre-shipment inspection and Trade-related aspect of Intellectual Property rights (TRIPS)
2. ASEAN-CEPT including legal enactments and consolidated packages of ASEAN members
3. ASEAN customs-related laws
4. In-country ruling (US Customs rulings)
5. Voluntary disclosure programs of other countries
6. US Customs Assessment Kit and Risk Management
7. Commonly used INCOTERMS (International Commercial Terms)

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. USAID approved the task on January 19, 2007, and the team started its work on January 22.

Component: Office Performance Management System (OPMS)

Ms. Minette Soriano and Ms. Bing Pasaporte conducted a validation workshop with the Port of Manila (POM) offices to present the results of the September 2006 OPMS workshops. They 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 obtained for the measures identified. Ms. Soriano presented the draft PMS chapter to DepCom Umali and Atty. Noemi Alcalá for comments.

Component: Rewards Management Information System (RMIS)

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 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. 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 completed its work in April 2007. The following are its accomplishments: The team developed initial tools and systems for institutionalizing the Performance Management System (PMS) in the Philippine Bureau of Customs (BOC). The Performance Management Installation Framework contains the guiding principles in the implementation of the PMS. It discusses the results of an office evaluation done at the Port of Manila (POM) as the pilot site of the project, to determine the level of readiness of the Bureau for PMS installation. Based on these findings, the team provided some recommendations on the nationwide installation of PMS in the BOC.

The goal allocation methodology presents an approach for allocating revenue targets among the Districts, the use of collective targets for individuals and requisites for implementation. The Rewards Framework describes how rewards may be distributed based on performance and accountabilities of the offices and employees in the BOC. A draft Customs Memorandum Order (CMO) was prepared to enable the PMS-related measures.

This activity was requested by Commissioner of Customs Napoleon Morales to catalyze the full scale implementation of the Attrition Act of 2005 in the BOC.

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.

MCC-PTP Consultants Leonard Ginochi and Edmund Guamen and Ramon Clarete met with DepCom Reynaldo 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 was to help MCC-PP develop the terms of reference for their part of this activity.

Ramon Clarete completed the draft terms of reference of this activity for MCC-PTP. He and the MCC-PTP consultants have yet to meet with Deputy Commissioner Rey Umali to discuss the draft document.

The proposed activity would result in the drafting of proposed legislation to revise the country's customs code and issuances by the Secretary of Finance and/or the Customs Commissioner of customs orders that are more consistent with the law and with one another. These reforms are in turn required for the country's effort to harmonize its customs laws with those recommended by the World Customs Organization's Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures.

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

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 Milestones Achieved: 1) 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.

2) Draft DA Administrative Order (AO) on Guidelines for the Importation of Agricultural & Fishery Products, which has been endorsed to the office of the DA Secretary for issuance. The draft AO mandates the adoption of the harmonized import clearance and inspection processes proposed by the CVAI consultant team. The DA has also engaged the services of a legal expert to draft other AOs on licensing, accreditation and registration processes.

Following the completion and success of Task 2.1.3.1a above, Department of Agriculture Undesecretary Segfredo 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 TOR was approved by USAID in July 2006, with the Caesar Virata Associates Inc. (CVAI), Inc. as vendor. The TA was completed in June 2007. Throughout the duration of the TA, the team worked very closely with a Technical Committee (TC) created through a Special Order issued by the then DA Secretary Panganiban,. The TC was 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). The team had weekly meetings with the TC in the course of drafting their deliverables. These meetings proved productive as they provided the opportunity for the TC members to understand better the strengths and limitations of the current system of SPS administration.

The following are the components and outputs of the TA:

- *Policy Statement on Technical Regulations* – this report identified the specific purposes of DA’s technical regulations on SPS, the principles governing the formulation and implementation of these regulations, and the strategies and approaches in implementing the technical regulations.
- *Interim Organizing Arrangements* – Pursuant to EO 366 and following the recommendations in the diagnostic studies undertaken under Task 2.1.3.12, the DA planned to create three agencies to undertake the DA technical regulation functions as a cluster. These are: (i) Philippine Agriculture and Fishery Regulatory Agency (PAFRA) as the coordinating and oversight agency; (ii) Philippine Agriculture and Fishery Standards Bureau (PAFSB) as the standard setting agency; and (iii) Philippine Agriculture and Fishery Inspection Bureau as the enforcement agency. To prepare for the planned rationalization, the TA developed recommendations on the interim organizing arrangements that the DA may institute as it transforms its SPS administrative system from the current fragmented set-up to a harmonized and integrated one.
- *Architecture of SPS regulations* – The TA reviewed the current IT systems in the administration of SPS. Based on the review, an IT system framework was developed to map and improve the SPS business processes, specifically for border operations. And based on this framework, the design of the desired future state of architecture for SPS regulations was developed
- *Harmonization and streamlining of SPS import processes* – the TA reviewed and documented the current diverse rule and practices in import processes of the six DA regulatory enforcement agencies. Based on the review, the processes for were streamlined and harmonized. The business processes include: issuance of import permit, import inspection, accreditation of establishment, and issuance of import clearance.
- *Harmonization and streamlining of SPS export processes* - the TA reviewed and documented the current diverse rule and practices in export processes of the six DA regulatory enforcement agencies. Based on the review, the processes were streamlined and harmonized. The business processes include: export licensing, accreditation of an establishment, issuance of export certificate and inspection of port exit.
- *SPS administration operating manuals* – Manuals of operations were developed on how to implement the harmonized and streamlined business procedures, both for export and import processes.

The TA provided the technical groundwork for achieving the goals of the DA of a more effective, efficient, consistent, and transparent administration of the SPS regulations. The streamlined and harmonized business procedures eliminated the redundant and irrelevant

documentary requirements. This is expected to reduce the processing time by 3 to 5 days, and hence, the cost of SPS administration.

This activity paved the way for the pilot implementation of the Philippine national single window between the Bureau of Customs and the Department of Agriculture. The harmonization accomplished facilitated the connectivity between the two government agencies.

As a result of the TA, a DA Administrative Order (AO) on the Guidelines for the Importation of Agricultural & Fishery Products has been drafted and endorsed to the Office of the DA Secretary. The draft AO adopted the harmonized import clearance and inspection processes proposed by the CVAI consultant team. The said AO will undergo final public consultations prior to its issuance by the Secretary. The consultations were delayed due to the recent national elections but are expected to be completed in August. The DA has engaged the services of a legal expert to draft AOs on licensing, accreditation and registration processes.

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 operationalizing the National Single Window by January 1, 2008. This achievement in turn is required for setting up the ASEAN Single Window for the six major members. The work plan for the Philippine National Single Window, which the participants in the orientation/workshop will produce, will be presented NSW Steering Committee for its approval.*

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 Customs Commissioner Napoleon Morales and Deputy Commissioner Alexander Arevalo, who is concurrently the head of the ASEAN Single Window Steering Committee, asked EMERGE to help the Bureau undertake an orientation/workshop on the NSW on August 7 and 8, 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.

Held on August 7 and 8, 2007, the orientation cum workshop brought together participants from forty-seven different concerned government agencies and private sector stakeholders that are considered to be part of the NSW network. The participants prepared and agreed on the common NSW Work Plan, which will be presented to the NSW Steering Committee when they meet in September 2007 to implement EO 482. They also recognized that the initiative generally requires continuous inter-agency collaboration in order to achieve the overall goal of establishing the NSW by January 2008.

Overall, the orientation and workshop effectively put forward the knowledge and ideas of concerned government agencies and private sector organizations in developing an effective NSW work plan while underscoring the need for deepened cooperation and inter-agency coordination. The delegates expressed their deep appreciation to BOC and USAID for conducting this very worthwhile and fruitful event.

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

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

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 Motoomull of the Bureau of Products and Standards (BPS), the Export Development Council (EDC), PhilExport, and the Philippine Chamber of Commerce and Industry (PCCI). The primary objectives of the TA are two-fold. The first objective is to provide the Philippine business community, particularly exporters, with a one-stop gateway information gateway on standards, conformity assessment requirements, and trade-related regulations of the Philippines as well as the country's major trading partners. The business community's access to this information and their compliance with the requirements of their trading partners will facilitate trade, improve their market access and reduce their business transaction costs. The latter is important for them to be globally competitive.

The second objective is to enhance the capability of the National Technical Barriers to Trade Coordinating Committee (simply known as the National TBT Coordinating Committee) in providing policy direction for the effective implementation of the country's commitments to the WTO TBT Agreement and other bilateral/regional agreements. As part of the requirements of the Decision and Recommendations Adopted by the TBT Committee (G/TBT/1/Rev.8) under the WTO TBT Agreement, member countries should develop the General Procedures for the National TBT Coordinating Committee following the guidelines set under G/TBT/1/Rev.8. The country has yet to comply with this requirement.

The implementation of the TA was done in two phases. Phase 1 was the specification of the functional and systems design of the portal while Phase 2 was the development and establishment of the portal.

Phase 1 started in August 2006 and was completed in December 2006. EMERGE hired the services of Mr. Oliver Malabanan to implement the TA. BPS created the S&C Steering Committee to oversee the implementation of the TA. The Committee is composed of the BPS, EDC, PCCI, PhilExport, BETP, DTI-MIS and EMERGE. In coming up with the functional and systems design of the portal, an assessment was first made on the current procedures and

practices of the BPS in providing its services to the business community. Improvements on how to better address the business community's needs were then incorporated into the design and specifications of the portal.

During the course of Phase 1, an unforeseen development transpired. That is, the ECA-EU is also extending TA on one of the portal's functionalities – the export alert and notification system. To avoid duplication and ensure complementation between the EMERGE and ECA TA, a major activity was spent on defining the scope of work and assistance to be provided by each. Given that ECA has already finalized its TOR, Dir. Motoomull requested EMERGE to take on the portal's functionalities which are not covered by ECA.

ECA also had contracted the services of SYSTEMA Computer Solutions Corp. to develop the export alert and notification system. SYSTEMA will use a product called JOOMLA. While JOOMLA is an open source software, which meets all the requirements of the ECA-covered functionalities, it also provides a rich application framework for any customization that is required. To ensure technical consistency and compatibility of all the portal's functionalities to be provided separately by both TAs, a single supplier is deemed necessary. Thus, EMERGE, in coordination with the BPS, evaluated (i) JOOMLA as a product, and (ii) the technical capability of SYSTEMA as a supplier for the functionalities covered by its TA. The findings on both are favorable.

EMERGE also assisted the BPS prepare the proposal for the hardware requirements of the portal. The Export Development Council (EDC), through a letter to Dir. Motoomull, expressed funding support for the hardware component of the portal. Funding support will come from the Export Promotion Fund of the Bangko Sentral ng Pilipinas (BSP).

The outputs of Phase 1 were approved and accepted by BPS and the S&C Portal Steering Committee in a meeting on 18 December 2006.

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

Performance milestone achieved: The S&C portal was launched on 28 June 2007 during the 2nd quarter General Membership Meeting of PhilExport. Launch was led by DTI Secretary Favila, USAID Acting Mission Director Daniel Moore, PhilExport President Sergio Ortiz-Luis Jr., and PCCI President Mr. Donald Dee.

After the successful completion of Phase 1, Dir. Motoomull requested EMERGE to continue with its TA. The implementation of Phase 2 was necessary in order to realize the objectives of the TA to BPS. The TOR for this task was approved by the USAID on 22 January 2007. The TA was concluded in June 2007. EMERGE hired the services of a consultant team, with Mr. Oliver Malabanan as the Team Leader, to implement the TA. As in Phase 1, the S&C Steering Committee oversaw the implementation of the TA.

The following are the TA's components and outputs:

- *Systems development and customization* – EMERGE issued a purchase order (PO) to SYSTEMA to implement this component. The portal has seven (7) major systems: (i)

content management system; (ii) database management system; (iii) notification/alert and commenting system; (iv) catalogue on-line or library system; (v) document management system; (vi) message forums and (vii) web store. During the course of development of the portal, SYSTEMA made available the portal in progress 24x7 to EMERGE and BPS for review and assessment to ensure that the design and specifications as developed in Phase of the TA is implemented. As the work progressed, SYSTEMA made several presentations of its outputs to the S&C Steering Committee for their review and evaluation.

- *Data conversion and content development* - The portal is dependent on the value and quality of its information content. The contents come in three (3) types: database, documents and articles. These three were processed, encoded and converted into forms that can be loaded and migrated to the portal. The EMERGE team worked very closely with the Heads of the Action Teams (ATs) at BPS. The activities included: (i) inventory of existing resources (databases and documents) at the BPS; (ii) re-writing and creation of new content; (iii) digitization of existing documents; (iv) conversion of existing databases; (v) indexing of the Philippine National Standards (PNS); and (vi) migration of resources into the portal.

An important output of this component is the HS-ICS Concordance. BPS is using the International Classification Standards (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 the Harmonized System (HS) for their product codes, as mandated by the World Trade Organization. A concordance for HS and ICS is necessary because: (a) exporters need to know the ICS-PNS code for their products; while (b) 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, whichever code they are using. BPS created a Task Force to develop the concordance. 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.

- *Enhancement of the capability of the Philippine Technical Barriers to Trade Committee (TBTCom)* – For this component, EMERGE assistance came in the form of the following:
 - (i) workshops and meetings to organize the TBTCom composed of government agencies, business sector and the academe;
 - (ii) drafting of the Memorandum of Agreement (MOA) for the TBTCom members to ensure their commitment to the work of the committee. The MOA was signed by heads of agencies and institutions represented in the TBTCom
 - (iii) preparation of the TBTCom Manual of Procedures

(iv) formation of the Network of Technical Experts who will provide comments on proposed standards, technical regulations and conformity assessment procedures by WTO member countries. The director of the members of the network was also prepared.

- *Launching of the portal* - The S&C Portal was launched during the 2nd Quarter General Membership Meeting (GMM) of PhilExport on 28 June 2007 at the Dusit Hotel in Makati. It was a very successful event, as shown by the 350 participants who attended, composed of exporters, industry associations and representatives from the academe and government sectors. The event was also covered by the country's leading print and broadcast media, such as ABS-CBN, GMA, Philippine Daily Inquirer, Philippine Star and Manila Bulletin.

Trade and Industry Secretary Peter Favila, Acting USAID Mission Director Daniel Moore, Mr. Sergio Ortiz-Luis Jr. (PhilExport President), and Mr. Donald Dee (PCCI President) led the launching of the portal. There was a live demo on the functionalities of the portal. A kiosk was set up at the registration area. Many of the participants tried using the portal and expressed excitement and satisfaction. Several exporters also have registered on-line in the portal. An industry association also approached Dir Motoomull requesting BPS to give them in-house training on how to use the portal. Dir. Motoomull said that he expects other associations to make the same request. All these are indications of the importance of the portal to the business community.

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 was in response to the request of DTI Senior Undersecretary Thomas G. Aquino to the RP-US Trade and Investment Council (TIC) and USAID-Philippines to develop the capacity of the government and civil society to understand and participate in international trade discussions and negotiations. The program employed a blended learning model, which is a combination of instructor-led web-based training, and face-to-face lectures and workshops. It was implemented over the period November 2005 to December 2006.

Overall, PGTEP enrolled a total of 743 e-learners. Of this number, 118 participants were delisted or remained inactive. Thus 625 were considered "active enrollees." The Program required participants to complete the requirements of all 8 courses. Table 1 below shows the course completion performance.

Table 1. e-Learning: Course Completion Performance

Status of Course completion	Number of completers
Completed courses 1 to 8	214
Completed 7 courses	9
Completed 6 courses	15
Completed 5 courses	29
Philippine Laws on International Trade	63
Total	330

Aside from the 8 on-line courses, four topical face-to-face workshops were conducted: trade in services, trade facilitation, trade in agriculture and trade legislation. The Program closed with an Integrating Workshop on 14 December 2006. The highlight of the integrating workshop was the video conference with WTO Director-General Pascal Lamy and Prof Yash Tandon of the South Center in Geneva.

On 15 Feb 2007, the Department of Trade and Industry (DTI) and the PGTEP held a press conference to discuss the results of PGTEP. Members of the press came from the Philippine Daily Inquirer, Philippine Star, Business World 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.

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. However, EMERGE counterparts at BFAD informed it that the draft document was referred back to BFAD during the last quarter. One DOH official requested BFAD to justify the need for issuing the guidelines. EMERGE continues 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

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) on 22 May 2006, 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.

This task was in response to the request of DA Undersecretary Segfredo Serrano to help strengthen the government's mechanisms for effective and efficient regulation of agricultural and food biotechnology. The TA was completed in May 2006. EMERGE hired the services of the ISAAA to implement the TA. The TA assisted the DA in drafting the following: (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.

While the technical work has been completed for nearly a year by now, EMERGE continued to monitor 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 2.2.1.3a 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;

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.

This TA was in response to the request of DA Undersecretary Segfredo Serrano and BFAD Director Leticia Barbara- Gutierrez to (i) help improve public awareness, knowledge and understanding on modern biotechnology; and (ii) to help strengthen the technical expertise of government regulators in the different aspects of biosafety regulations both at the national and local levels. EMERGE hired the services of the Biotech Coalition of the Philippines (BCP) to implement the TA. The TA was completed in July 2006.

Accomplishments include the conduct of 28 institutional capacity building (ICB) activities for government regulators, technology developers, and the academe; and 25 IEC activities. The ICB activities helped the DA and BFAD in the formulation and issuance of the policies and Memorandum Circulars accomplished in Task 2.2.1.2 above. Details of the activities are shown in Table 2 below.

**Table 2. Summary of Institutional Capacity Building and IEC Activities
Biotechnology 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
<i>Institutional Capacity Building</i>	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	3rd week of July to 1st 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

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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
<i>Institutional Capacity Building</i>	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

**Table 2. Summary of Institutional Capacity Building and IEC Activities
Biotechnology 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
	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
<i>Institutional Capacity Building</i>	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
<i>Information, Education and Communication</i>	2005 Gawad Galing Biotech Journalism Launching	Seminar/WS for Academe/Media	8-Jun-05	5	Annabel's, Quezon City	36	Media people

**Table 2. Summary of Institutional Capacity Building and IEC Activities
Biotechnology 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
	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
<i>Information, Education and Communication</i>	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 2005	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
	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

**Table 2. Summary of Institutional Capacity Building and IEC Activities
Biotechnology 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
	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
<i>Information, Education and Communication</i>	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	Gingog 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

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

Performance milestone achieved – The following were conducted and accomplished: (i) 12 consultative meetings for the development of biotech-related protocols and guidelines; (ii) 2 training seminar-workshops for government regulators; (iii) 12 public seminars and roundtable discussions on modern biotechnology; and (iv) 6 seminar-consultation on biosafety and bio-commerce.

Following the success of Task 2.2.1.3a above, DA Undersecretary Segfredo Serrano and BFDAD Director Leticia Gutierrez requested EMERGE to continue with its TA to strengthen the Philippine's government's mechanism for effective and efficient regulation of agricultural and food biotechnology. The TOR was approved by USAID on 24 August 2006, with the Biotech Coalition of the Philippines (BCP) as vendor. The TA was completed in June 2007.

The TA covered two major areas.

- Regulatory development and capacity building (RDCB) – The BCP helped develop government capacity for science-based regulations of modern biotechnology through the conduct of (i) consultative technical meetings for the development and harmonization of biotech-related guidelines and protocols and (ii) trainings and workshops to upgrade individual institutional capability for biosafety risk assessment and risk management. Participants to these activities include the technical and policy staff (Biotech Core Teams, BCT) of BFAD and the four biotech regulatory agencies under DA namely, Bureau of Agriculture and Fisheries Product Standards (BAFPS), Bureau of Plant Industry (BPI), Bureau of Animal Industry (BAI), and Fertilizer and Pesticide Authority (FPA); the independent pool of scientists (the “Scientific and Technical Review Panel” or STRP) employed by these agencies to perform parallel external biosafety assessments of GM crop applications; and technical officers at the local government units (LGUs) involved in biosafety decision making. Seminar-workshops were also conducted for the STRP and BCTs on (a) risk assessment for the commercialization of GM crops and (b) new biosafety. The RDCB activities helped the DA and BFAD draft the policy guidelines and Memorandum Circulars accomplished in Task 2.2.1.5 below.
- Information, education and communication (IEC) – The BCP conducted seminars and roundtable discussions to help improve public awareness, knowledge and understanding of modern biotechnology products and processes; targeting the academe, media, policymakers, church leaders, consumers, farmer-leaders and the general public.

Please refer to Table 3 below for the details of the RDCB and IEC activities.

**Table 3. Summary of Institutional Capacity Building and IEC Activities
24 August 2006 to 30 June 2007**

General Type	Specific Type	Name of Activity	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
Regulatory Development and Capacity Building	<i>Training-Workshop for Regulators (2)</i>	Seminar-Workshop on Risk Assessment of GM Crops For Commercial Release	20-22 September 2006	24	PHINMA Training Center, Tagaytay City	89 (31 Male, 58 Female)	Polymakers and regulators, technology developers
		Seminar-Workshop on New Biosafety Regulations and Products in the Pipeline	18-20 April 2007	22	Summer Place Hotel, Baguio City	100 (48 Male, 52 Female)	Polymakers and regulators, scientists, technology developers, others
	<i>Guidelines and Protocol Development (12)</i>	Seminar on Roundup Ready Crops	14-Nov-06	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	7-Dec-06	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 the 6th Session of the Codex Task Force on Food Biotech	8-Dec-06	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	29-Dec-06	4	Conference Room, College of Agriculture, UP Los Baños	31 (13 Male, 18 Female)	Polymakers and regulators, technology developers
		Seminar on the Second Generation of Bt Insect-Protected Corn	26-Jan-07	4	Apacible Conference Room, Department of Agriculture	30 (8 Male, 22 Female)	Polymakers and regulators, technology developers
		Technical Meeting 2 on the Renewal of GM Permits	29-Jan-07	4	Apacible Conference Room, Department of Agriculture	32 (17 Male, 15 Female)	Polymakers and regulators, technology developers

**Table 3. Summary of Institutional Capacity Building and IEC Activities
24 August 2006 to 30 June 2007**

General Type	Specific Type	Name of Activity	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
		Technical Meeting 1 on Low-Levels Incidental Presence	5-Mar-07	4	Policy & Planning Conference Room, Department of Agriculture	21 (8 Male, 13 Female)	Policymakers and regulators, technology developers
Regulatory Development and Capacity Building	<i>Guideline and Protocol Development (12)</i>	Technical Meeting 3 on Permit Renewals and IRM	10-Apr-07	4	BPI Director's Conference Room, Bpi Manila	26 (12 Male, 14 Female)	Policymakers and regulators, technology developers
		Technical Working Group on Plant-Made Pharmaceuticals Meeting 1	12-Apr-07	4	College of Public Health, UP Manila	18 (8 Male, 10 Female)	Policymakers and regulators, scientists, technology developers
		Special Seminar and Hands-on Training on IRM Reporting & Monitoring for RCPCs	03-04 May 2007	15	San Fernando, Pampanga	30 (16 Male, 14 Female)	Policymakers and regulators, scientists, technology developers
		Technical & Public Consultations on Revision of AO8 Direct Use Provision	24-May-07	4	BSWM Convention Hall, Department of Agriculture	80 (50 Male, 30 Female)	Policymakers and regulators, academe, NGOs, private sector, international agencies
		Technical Working Group on Plant-Made Pharmaceuticals Meeting 2	13-Jun-07	4	NPAL Conference Room, BPI Compound, Q.C.	20 (9 Male, 11 Female)	Policymakers and regulators, technology developers
				Consultative Meeting and Seminar on GM Crops and Adventitious Presence	30-Aug-06	4	Discovery Suites, Ortigas Centre, Pasig
Information Education and Communication	<i>Public Seminar & RTD on Modern Biotech (12)</i>	Jose G. Burgos, Jr. Awards for Biotech Journalism (2 nd Gawad Galing for Biotech Journalism)	8-Nov-06	5	Club Filipino, Greenhills, San Juan	70 (36 Male, 34 Female)	Media, policymakers, APEC delegates

**Table 3. Summary of Institutional Capacity Building and IEC Activities
24 August 2006 to 30 June 2007**

General Type	Specific Type	Name of Activity	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
		Public Seminar on Modern Agricultural Biotech for Cagayan	21-Nov-06	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
Information Education and Communication	<i>Public Seminar & RTD on Modern Biotech (12)</i>	Public Seminar on Modern Agricultural Biotech for Isabela	23-Nov-06	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	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
		Public Seminar on Modern Agricultural Biotech for Ifugao	14-Dec-06	7.5	Potia Bgy. Hall, Alfonso Lista, Ifugao	76 (43 Male, 33 Female)	LGU officials (executives and technical officers), academe, students
		Special Seminar Course on Bio-entrepreneurship	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	9-Mar-07	5	Linden Suites, Ortigas, Pasig City	53 (26 Male, 27 Female)	regulators, technology developers, scientists, industry organizations, media, farmers, civil society organizations

**Table 3. Summary of Institutional Capacity Building and IEC Activities
24 August 2006 to 30 June 2007**

General Type	Specific Type	Name of Activity	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
		Biotech Networking and Commercialization (BIONet) National Congress	2-Apr-07	10	Bahay Kalinaw, UP Diliman, Q.C.	86 (50 Male, 36 Female)	LGU, national government officials, media, farmers, NGOs, academe, industry and private sector
		Seminar on GM Drought-Tolerant Corn	1-Jun-07	4	Apacible Conference Hall, DA	48 (20 Male, 28 Female)	Policymakers and regulators, scientists, technology developers
		Training-Workshop on LGU Course on Biotech	13-14 June 2007	19	MDC Training Center	20 (14 Male, 6 Female)	LGU officials (executives and technical officers)
Information Education and Communication	<i>Seminar-Consultation on Biosafety/Bio-commerce (6)</i>	Public Seminar on the Biotech Industry Survey	25-Jun-07	4	InterContinental Hotel, Makati	80 (38 Male, 42 Female)	Industry, public research institutes, government agencies, academe, NGOs, media
		Seminar-Workshop on Economic Opportunities in Biotech for Caraga	27-28 September 2006	18	Northern Mindanao State Institute of Science & Technology (NORMISIST), Butuan City	120 (65 Male, 55 Female)	LGU officials (executives and technical officers), farmers, people's organization, academe, investors/ business organizations, media
		Seminar-Workshop on Economic Opportunities in Biotech for Iloilo	5-Oct-06	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	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
		Seminar-Workshop on Biotech Economic Opportunities for Southern Luzon	25-26 January 2007	18	Development Academy of the Philippines, Tagaytay City	91 (40 Male, 51 Female)	LGU officials and executives, media, NGOs

**Table 3. Summary of Institutional Capacity Building and IEC Activities
24 August 2006 to 30 June 2007**

General Type	Specific Type	Name of Activity	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
		Seminar-Workshop on Economic Opportunities in Biotech for Quezon Province	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	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 for transgenic crops

Performance Milestones Achieved: 1) 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.
2) The permit for field testing the transgenic papaya was 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.

This task is in response to 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 of the UP Los Baños Institute for Plant Breeding (IPB-UPLB); (ii) contained and confined trials for papaya ringspot virus (PRSV) resistant papayas in the Philippines by Dr. Randy Hautea of the ISAAA; and (iii) contained and confined trials for new fruit and shoot borer-resistant (FSBR) eggplant varieties for the Philippines by Dr. Desiree Hautea of the IPB-UPLB.

The three proposals were approved by USAID in August 2006. For FSBR eggplant, the EMERGE grant will cover activities that will enable the proponents to complete the regulatory requirements of the NCBP before the eggplant could be tested in multi-locations. 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.

The following are the highlights of accomplishments of the grants:

a. PRSV Papaya

- *Regulatory activities* - The National Committee on Biosafety of the Philippines (NCBP) approved on 3 January 2007 the conduct of the first confined trial (virus efficacy trial) of the PRSV papaya. On 29 June 2007, the UPLB-IPB approved and endorsed to the NCBP the application for a 2nd confined trial (event selection and performance evaluation) at the IPB-UPLB Experimental Farm in Paciano, Rizal. NCBP is expected to decide on the application before end of July 2007.
- *Product development*- The planting of the 1st confined trial was carried out in a confined trial plot inside the IPB-UPLB compound on 23 February 2007. This is the first time that a locally-developed bioengineered tree crop was planted outside the BL2 greenhouse in the country. The purpose of the trial is to test under open conditions the virus efficacy of three candidate events and select the event/lines with the highest level of resistance to papaya ringspot virus.

- *Regulatory file development* –The confined trial site assessment and development activities were completed. Visits/meetings and site assessment activities with prospective multi-location partners were also completed.
- *IEC and capacity building activities* - the PRSV papaya team hosted visits of regulators, partners, stakeholders and other visitors in the PRSV Papaya BL2 GH. From 1 September 2006 to 31 May 2007, the project team briefed a total of 221 visitors (73 foreigners and 148 locals). On May 10-11, 2007, the project team conducted a seminar-workshop on food safety and risk communication for Pinoy GM crops, with more than 50 participants consisting of regulators, technology developers, and prospective multi-location partners. In-house trainings were also held for the project team such as: (i) seminar-workshop on biosafety regulations and risk communication for biotech crops researchers held on 12-13 February 2007; and (ii) Lakbay-aral and team building workshop of PRSV and FSBR eggplant projects held on 22-25 April 2007.
- *Pending deliverables* – The project team is awaiting the approval by NCBP of the application for 2nd confined trial in the IPB-UPLB Experimental Farm in Paciano, Rizal. The Memorandum of Understanding (MOU) with the multi-location partners has yet to be signed. Monograph on country-specific information is still not completed because the survey and collection in other papaya growing provinces in the country is still on-going and will be completed in Sept 2007.

b. FSBR eggplant .

- *Regulatory activities* – On 21 June 2007, the IPB-UPLB endorsed to the NCBP the completion report of the first contained trial. Certificate of completion is expected to be issued before end of July 2007. The IPB-UPLB also approved and endorsed to NCBP the application for a confined trial (event selection and performance evaluation) at the IPB-UPLB Experimental Farm in Paciano, Rizal. NCBP is expected to decide on the application end of July 2007.
- *Product development* - The backcrossing and selection from BC2F1 to BC1F2 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. Planted 100 plants each of BC2F1 to produce 3rd backcross generations. Pollination and further selection is underway.
- *Regulatory file development* - The confined trial site assessment and development was completed. The draft monograph on the “Biology of Eggplant Solanum melongena” was completed and submitted. The regulatory dossier of the Mahyco event EE-1 was provided for use by Mahyco partner through ABSPII-South Asia. Also completed were research activities on GMO-genetics and entomology studies.
- *IEC and capacity building* – From 1 September 2007 to 31 May 2007, the FSBR team hosted the visits of 221 visitors, both local and foreigners. These include regulators, partners, stakeholders and other visitors. The FSBR team also received training through attendance in training courses, workshops, seminars and in-house apprenticeships.
- *Pending deliverables* – The project team is awaiting the (i) NCBP certificate of completion of contained trial; and (ii) NCBP approval of confined trial in IPB-UPLB Experimental Farm in Paciano, Rizal. Harvesting of BC3 fruits has been completed and is expected to be completed by mid-August 2007. Conduct of confined trial, if approved, is expected to be completed in December 2007.

c. Delayed ripening papaya

- *Regulatory activities* – A public consultation on the proposed biosafety field testing was held on 17 November 2006 with Barangay Tranca officials. Seminars on the technology and biosafety were also conducted on 25 December 2007 at the Masaya National High School and on 8 November 2006 at the UP Rural High School. To enable the project staff follow the biosafety protocols, trainings were held on 21 November 2006 by the project and study leaders and on 15 May 2007 by the BPI Biotech Team. The approval for the use of the field by its owner (Mayor Bruno Ramos) was obtained in 6 February 2007. Finally, the DA-BPI issued the biosafety permit for field testing for three events on 20 March 2007. The field testing and other activities are still on-going and will be continued under a project to be funded by DA Biotech starting July 2007.
- *Field evaluation* - Field testing of four transgenic lines from three events were held in Bay, Laguna. This is the first field testing of a home grown biotech crop in the country. The horticultural traits of the transgenic papaya were determined and measured. Many of the plants have started to flower in May 2007. Their susceptibility to pests were also determined. Tests on genetic stability showed that the transgenic papaya lines were genetically stable.
- *Molecular analysis* – PCR screening showed that all the plants were positive for antisense ACS2 and negative for the kanamycin resistance gene marker.
- *Biochemical analysis* – Biochemical analysis of the proximate composition showed similar values for transgenic and control fruits; and the values were within those reported in the literature, indicating substantial equivalence between transgenic and control papayas. Likewise, results on ascorbic acid contents of transgenic and control fruits also showed similar values which were within those reported in the literature. Samples for toxicity test are ready; tests will be done in August 2007 under the DA Biotech project.
- *Market analysis* - The survey on papaya production and marketing strategies started in February. The survey was done in the provinces of Laguna, Cavite and Quezon as well as Davao, South Cotabato and Tupi. The results of the survey are still being analyzed especially as they relate to the preferences and benefits of delayed ripening trait in papaya.

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

Performance Milestone Achieved: (1) On April 2, 2007, DA Secretary Yap issued guidelines for the renewal of permits of regulated articles for commercial propagation as Memorandum Circular (MC) No. 2, Series of 2007.

(2) Draft revised protocols on risk assessment for the commercialization of GM plants and plant products – endorsed to the DA Secretary for issuance as MC.

(3) Draft Administrative Order Amending Part V of DA AO 8 – endorsed to the DA Secretary for issuance

(4) Draft guidelines for renewal of permit for regulated articles for direct use – for review by the DA-Policy Research Service (PRS)

(5) Draft guidelines for delisting - for review by the DA-Policy Research Service (PRS)

(6) Revised procedural guidelines and templates on IRM monitoring and reporting – draft MC endorsed to DA Secretary

(7) Draft guidelines on the regulation of GM pharmaceutical crops – for submission to the National Committee on Biosafety of the Philippines (NCBP) for its technical review

(8) Policy briefs for strengthening the science-based implementation of the National Biosafety Framework (NBF) – draft Implementing Rules and Guidelines may be issued in the form of Agency Procedural Manual to the NBF.

Under this task, EMERGE provided a grant to the ISAAA in its effort to assist the DA and BFAD develop policy guidelines and build institutional capacity for the regulation and eventual commercialization of plant-made pharmaceuticals. The grant was approved by USAID in July 2006. Implementation of the TA was completed in July 2007.

The following are the outputs of the TA:

- *Draft revised protocols on risk assessment for the commercialization of GM plants and plant products* - ISAAA extended technical assistance to the DA Policy Research Service (PRS) and the Bureau of Plant Industry (BPI) draft the updated version of the risk assessment protocols for the commercial propagation of plants derived from modern biotechnology. The protocols were revised based on the wealth of information gathered from international best practices since the first GM crop commercial propagation in 1996 in the U.S. and in 2003 in the Philippines. The revised protocols underwent several revisions following its presentations to the different stakeholders and government regulators for their review. The final draft was completed May 2007 and endorsed to the DA Secretary for his consideration. To date, the Office of the DA Secretary and Legal Office are studying the final draft prior to issuance as a memorandum circular.
- *Draft guidelines on biosafety permit renewal and delisting of GM plants and plant products*- ISAAA extended TA in drafting the following guidelines: (a) permit renewal for commercial propagation, (b) revision of part V of DA Administrative Order (AO) 8, (c) permit renewal for direct use, and (d) delisting. The DA and ISAAA held small consultative meetings with key stakeholders for the constant revision and rewriting of said guidelines.

On 2 April 2007, DA Secretary Arthur C. Yap issued the guidelines for the renewal of permits of regulated articles for commercial propagation as Memorandum Circular (MC) No. 2, Series of 2007.

The draft Administrative Order amending part V of AO 8 has been finalized and submitted to the Office of the DA Secretary. On the other hand, the draft guidelines on renewal for direct use and delisting have been finalized and are still with the DA-PRS.

- *Draft revised procedural guidelines and templates on IRM monitoring and reporting* - ISAAA served as resource persons during (i) technical meetings organized by the DA to discuss the improved system for insect resistance management (IRM) reporting and monitoring and (ii) seminar-practicum training for technology developers and regulators to revise the IRM guidelines and templates. ISAAA also assisted the DA-PRS and BPI draft the revised guidelines and the corresponding Memorandum Circular (MC). The MC has been endorsed to the DA Secretary for his issuance.
- *Draft guidelines on the regulation of GM pharmaceutical crops*- ISAAA assisted the DA-PRS draft the guidelines on the regulation of plant-made pharmaceuticals (PMP) and

served as resource persons during the technical meetings of the DA Technical Working Group on PMP where the draft guidelines were presented and discussed. The draft guidelines were finalized and completed based on the comments in the technical meetings. The final draft guidelines will be submitted to the National Committee on Biosafety of the Philippines (NCBP) for its technical review and comments.

- *Policy briefs for strengthening the science-based implementation of the National Biosafety Framework (NBF)* –ISAAA assisted the NCBP draft the Implementing Rules and Guidelines, which may be issued in the form of Agency Procedural Manual to the NBF.
- *Technical study on the biotech industry of the Philippines-* ISAAA completed the conducted of a study on the biotech industry in the country. The report is entitled “A Study of Philippine Biotech Industry Towards Industry Competitiveness”

Reform Result 2.2.2 Investment climate improved

Task 2.2.2.1 Diagnostic assessment of Investment Climate in priority sectors (emerging coconut products)

This TA was in response to the request of the then Board of Investment (BOI) Governor Consuelo Perez to help the agency meet its investment target in the current 6-year Philippine Medium Term Development Plan (MTPDP). The TA seeks to improve the investment climate by reducing transaction costs and risks associated with the supply chain management, from the procurement of inputs (whether local or imported) to the domestic sale or exports of outputs. As an initial step, industry diagnostic studies were undertaken for emerging coconut-based products to explore and validate the investment climate in these sectors. They are called as emerging coconut products to distinguish them from the nontraditional product groups’ classification. These are: (i) functional coconut food products – virgin coconut oil and its component by-products; (ii) industrial products – coconut shell charcoal and activated carbon, and cochin oil and coco methyl ester; and (iii) agro-industrial products – coir and coir products.

The TOR was approved by USAID in October 2005. The diagnostic studies were completed in October 2006. 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 studies. 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.

There is 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.

Task 2.2.2.2 Improve business development support services for SMEs

This task was in response to the issue raised by NEDA Director-General Romulo Neri at 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 Philippine Congress was just about to enact the credit bureau law to operationalize the credit bureau. In the fourth quarter of 2006, the National Credit Council wanted EMERGE to work on the implementation details of the said law if and when the Philippine Congress would have enacted the credit bureau law. However, BSP Deputy Governor Nestor Espenilla informed EMERGE that the BSP has other resources for what EMERGE and the NCC had planned to do. Espenilla preferred that EMERGE continue working on real estate appraisal reforms.

Henceforth, this activity will be reported under the banking and capital markets theme as task 4.1.2.4e on formulating a Geographic Identifying Code (GIC) for Real Estate Transactions. Following this change in the work plan, EMERGE drafted and circulated a terms of reference for a workshop on the GIC.

Task 2.2.2.3a 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) reported 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 of 2006: *The Philippine Star highlighted in the front page of one of its daily issues reported about the worst red tape concerns that AmCham submitted to Task Force Chairman Secretary Peter 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.

Bureau of Immigration 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 October 5 Foreign Direct Investment 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 it 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 Bicameral Committee 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 Secretary Teves, DTI Sec Favila, then Senate Ways and Means Committee Chairman 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 phase out 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.

In the first quarter of 2007:

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 P1.126T 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 free port 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.", which the President subsequently signed into law.*
- 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.

This task was a grant to the American Chamber of Commerce (AmCham)-Philippines 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. The TOR was approved by USAID on 22 February 2006. The TA as completed in March 2007.

The AmCham Investment Climate Improvement Project (ICIP) was to identify impediments and disincentives that hinder domestic and foreign investment 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 was not that AmCham would undertake these activities alone, but will join, support and otherwise coordinate its reform advocacies with like minded reform groups working for a better Philippine investment climate.

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.

Task 2.2.2.3b Establishment of feedback mechanisms between investors, their business associations and Philippine government authorities to act on investment bottlenecks (ICIP 2)

A second, follow-on grant proposal was approved for AmCham to continue, from March 1 to June 30, 2007, 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. Below are the performance milestones achieved along the following five areas: (i) reduce bureaucracy and corruption; (ii) proficiency in English; (iii) infrastructure – power; (iv) infrastructure – transportation; and (v) legislation.

- **Reduce Bureaucracy and Corruption**

Performance Milestone Achieved: (i) The Anti-Red Tape bill was signed into law as Republic Act (RA) 9485 (An Act to Improve Efficiency in the Delivery of Government Service to the Public by Reducing Bureaucratic Red Tape, Preventing Graft and Corruption and Providing Penalties Therefor) by President Macapagal-Arroyo on June 2, 2007. The Implementing Rules & Regulations is still being drafted.

(ii) The Bureau of Immigration (BI) issued Memorandum Order No. RMA-2007-001 extending the validity of the Alien Certificate of Registration identity card (ACR I-Card) to five years at the original cost of US\$50 per family member. The issuance culminated a 3-year long dialogue between the JFC represented by AmCham and ECCP with the BI to make the ACR I-Card a useful reform rather than a costly red tape annoyance to alien residents of the Philippines.

(iii) The NCC-TCF identified six priority projects: (1) improve the procedure for the entry and exit of business persons, (2) enhance the procedures for the import and export of goods, (3) improve the processes in starting, maintaining, and closing a business, (4) institutionalization of regulatory impact assessment (RIA) on existing/new government requirements, (5) streamlining the application of investment incentives, and (6) the Investment Ombudsman to resolve economic sabotage issues.

(iv) ICIP conceptualized a Consumer Satisfaction Survey of key government agencies with which foreign investors deal as a means of evaluating the efficiency and effectiveness of these agencies in facilitating business transactions. A memo recommending the conduct of such a survey was sent to the NCC-TCF in May.

(v) The BOI and members of its Investment Promotion Unit Network (IPU Net) composed of 27 government agencies also signed a memorandum of agreement (MOA) to enhance the country's investment and business climate by eliminating and/or minimizing administrative barriers to investments through speedy and easy transactions with various government agencies.

(vi) In May 2007, President Macapagal-Arroyo issued Executive Order 624, creating the Presidential Anti-Smuggling Group (PASG) under the Office of the President.

- **Promoting English Proficiency (PEP)**

Performance Milestones Achieved: (i) PEP and Philamlife inaugurated Computerized English Language Centers (CELCs) at Aurelio University in Cabanatuan, Nueva Ecija, De la Salle University (Lipa,

Batangas), Cebu Normal University, Cagayan de Oro University and Far Eastern University. All will provide remedial training for education majors and teachers. AIG chair Martin Sullivan, visiting from New York, and Philamlife President and CEO Jose Cuisia turned over a P5 million donation to PEP represented by AmCham Vice President Johnson and Makati Business Club ED Lim. A sixth CELEC at the University of Mindanao in Davao is operating and will be inaugurated in September 2007.

(ii) PEP signed a MOA with Rotary Manila to provide English software for two schools in Metro Manila using a grant of P300,000.

(iii) PEP team met with representatives of AmCham members Texas Instruments, Moog Controls, Client Logic and People Support at the Baguio Export Processing Zone to discuss Baguio PEP. A CSR budget of \$40,000 was agreed to fund CELCs at five Baguio universities.

(iv) PEP co-chair signed a MOA with Pasig Mayor Eusebio and Pamantasan ng Lunsod ng Pasig president Raymundo for a CELC donated by the UPS Foundation.

(v) PEP co-chair sent a revised proposal to the Mirant Philippines Foundation for \$20,000 for two CELCs at schools near the company's main power plants in Pangasinan and Quezon provinces. Mirant donated a check for this amount in late July.

- **Infrastructure – Power**

Performance Milestone Achieved: (i) On April 23, 2007, in response to repeated appeals for lower electricity costs, the Philippine Economic Zone Authority (PEZA) issued Memorandum Circular No. 2007-010, stating that the PEZA Board shall implement a program to rationalize the provision of electric power in ecozones. (ii) In May 2007, the JFC held a briefing at the Renaissance Hotel attended by some 200 participants with the Department of Energy (DOE) Team. DOE Secretary Lotilla presented milestones in restructuring the power sector for competition and achieving energy independence and policy directions of the DOE; (iii) In late July 2007, Masinloc was successfully bidded-out to a US power firm nearly \$1 billion, with only 25% of capacity covered by a transition supply contract with NPC. This sale brings the percentage of GENCOs privatized up to 25%.

- **Infrastructure – Transportation**

Performance Milestone Achieved: The AmCham Philippine Business Environment and Transportation & Infrastructure Committees hosted a luncheon briefing on EO 500/EO 500-A and EO 500-B and the NAIA IPT-3 with Department of Transportation and Communication (DOTC) Undersecretary Lontoc, Civil Aeronautics Board (CAB) ED Arcilla and NAIA Assistant GM Montalbo.

- **Legislation**

Performance Milestone Achieved: (i) In May, ICIP submitted to DOE comments to the draft IRR of the Biofuels Act; (ii) ICIP reviewed a new set of proposed amendments to the IRR for the Build-Operate-Transfer law, which were presented in a public hearing by NEDA in May 2006; (iii) On 12 July 2007, a letter endorsed by domestic and foreign business groups was sent to President Macapagal-Arroyo and recommended the following 12 priority reform bills for the 14th Congress:

- BOT Law Amendments
- Credit Information System Act

- *Customs Brokers Act Amendment*
- *Financial Sector Taxes Rationalization Act*
- *Fiscal Incentives Rationalization Act*
- *Foreign Investment Restrictions Rationalization Act*
- *Freedom of Access to Information Act (especially contract transparency)*
- *Land Administration Reform Act*
- *Local Government Code Amendments (clarify role re investment)*
- *Magna Carta for Small and Medium Enterprises Act Amendments*
- *Renewable Energy Act*
- *Simplified Net Income Taxation Act*

The second tier priority reform measures which the group agreed to advocate early passage of include:

- *Foreign Professional Partners in Development Act*
- *National Tourism Policy*
- *Personal Equity Retirement Account (PERA) Act*
- *Pre-Need Code Act*

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 then 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 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

Performance milestone achieved: *DFA Undersecretary Edsel Custodio and DENR Assistant Secretary and Executive Director of the Mining Development Council (MDC) Jeremias Dolino endorsed the Extractive Industries Transparency Initiative (EITI) during the presentation of the EMERGE team on 10 July 2007 of their findings on the EITI simulation exercise conducted for Philex Mines in Benguet and Rio Tuba Nickel Mines, Inc. in Bataraza, Palawan. Usec Custodio committed to (i) ask the Philippine Embassy in Oslo to get in touch with the EITI Secretariat informing the latter of the Philippine government's interest in EITI; and (ii) write DENR Secretary and MDC Chairman Angelo Reyes to get the endorsement of the MDC on EITI. On the other hand, Asec Dolino committed to include EITI in the agenda of the MDC's next meeting.*

This task was to assist the Chamber of Mines of the Philippines to conduct a pilot implementation of a simulated extractive industries transparency initiative (EITI) audit 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 was completed in July 2007.

Implementation of the TA came in two phases. Phase 1 entailed the development of a reporting template, and an audit plan in agreement with the mining companies and the LGUs in the pilot mining areas namely, Philex Mines in Benguet and Rio Tuba Nickel Mines, Inc. in Bataraza, Palawan. Phase 2, on the other hand, involved the preparation of reports, reconciliation of company submissions with the government submissions, and analysis of information with regard to any gaps and discrepancies. EMERGE hired the services of (i) Ms. Nelia Halcon and Mr. Ed Coronel to lead the implementation of the TA, and (ii) RS Bernaldo & Associates to conduct the reconciliation of payments made by the mining companies with the receipts by the LGUs of such payments.

In the course of the TA, a series of consultative meetings were held with the pilot mining companies, local government officials of the pilot mining areas, national government agencies and the Chamber of Mines. In all these meetings, all the participants expressed support to the EITI and the pilot simulation exercise.

- Philex Mines Inc – 4 December 2006; 17 March 2007; 19 June 2007
- Rio Tuba Nickel Mines Inc. – 8 February 2007; 22 March 2007; 25 June 2007
- Benguet LGU officials – 3 December 2006; 17 March 2007; 30 March 2007; 19 June 2007
- Palawan LGU officials – 3 December 2006; 22 March 2007, 25 June 2007
- MDC Policy Group – 26 April 2007
- Chamber of Mines – 29 May 2007
- National stakeholders (MDC, donor resource Group, mining companies, non-government organizations and the print media) – 10 July 2007

The results of the EITI simulation exercise show that there are discrepancies in the amount of taxes paid by the pilot mining companies and the receipts of LGUs of such taxes. This finding shows that EITI, if adopted, will provide a mechanism of disclosure by both the mining companies of the payments they make to their host governments and the host governments of the revenues they receive. Comparison of the payments and receipts allows the detection of discrepancies and thus brings about greater accountability. Given this, the implementation of the EITI framework in the country is necessary to revitalize the mining industry.

The pilot study also documented the issues encountered in the conduct of the EITI simulation exercise and made recommendations to address these issues in order to promote efficient and effective ways of implementing EITI in the country.

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 suggested ways to improve the proposal to better address the concerns of the mining industry regarding its manpower. However, the revised proposal required a time frame beyond the original EMERGE project life.

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. Basilio and Hernandez provided technical inputs and advice to Sec. Neri and Sec. Yap continuing advocacy for lowering transport costs. 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 3.1.1.3a Inter-modal Road-RORO Terminal System (RRTS) Project (Eastern and Palawan nautical highways)

Performance Milestone Achieved: *The Development Bank of the Philippines (DBP) (Mar Enecio 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 investment portfolio for proposed RORO terminal connections in Sorsogon, Masbate and Cebu, copies of which were distributed at the forum. The second (and last) regional investors' forum was conducted in Cebu City on March 7-9 by DBP (Mar Enecio and staff), the RRTS team and EMERGE (Ramon and Gilbert).*

The DBP has started to use the investment folio produced by the EMERGE TA as a template for presentations and discussions with potential investors in RRTS in several cities, e.g., Cagayan de Oro City, General Santos City, etc..

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, 2006, and another field visit on June 21-23 to the municipalities of Bogo and Daanbantayan in Cebu province. An important activity during the field visits was the dialogue/interviews held by the RRTS team with local government officials and other stakeholders. DBP formed a technical working group composed of DBP shipping and logistics experts (Simple Apolinar, Carmen Hernandez and Raul Pasagui), Gilbert Llanto (EMERGE) and the consultant team (Alonzo, Rognstad, Navarro) to review the technical report of the consultants. Several meetings were held to review and refine it.

The final report, submitted in January 2007, 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. This task is done.

Task 3.1.1.3b RRTS Road Show to Bicol and Cebu

On February 22, 2007, the regional investor forum on the RRTS Central Nautical Highway was held in Pilar, Sorsogon. Ramon Clarete attended the forum with EMERGE consultants Dr. Ruperto Alonzo and Ms. Adora Navarro, and DBP officials headed by Senior VP Mar Enecio. The consultants presented the feasibility study of the RRTS highway that they prepared for the Development Bank of the Philippines. There were about twenty to twenty-five participants. Two investors expressed interest in the Pilar-Aroroy part of the highway. One of the two was starting construction of a Pilar RRTS terminal that week, and the firm was already in the RRTS business as a vessel operator. The other one was reportedly checking out the real estate properties in the area where ideally the terminal ought to be. The EMERGE-sponsored study facilitated these decisions by confirming the financial and economic viability of the central RRTS nautical highway. The DBP officials confirmed that terminals or ports were already at the other end of the central highway.

The second regional investment forum for the RRTS was held in Cebu City on March 8, 2007. The DBP (represented by Mar Enecio, Mitzi Hernandez, Simple Apolinar and Raul Pasagui), EMERGE (Ramon and Gilbert) and the consultants (Ruping Alonzo of the UP School of Economics and Adora Navarro) hosted the investment forum. Local government units, representatives from the Department of Transportation and Communication (DOTC) and private stakeholders, e.g., shipping companies, participated in the whole day seminar on the investment potential in the RRTS. The participants showed strong interest in investing in the RRTS. DBP President Ray David, who dropped by in the seminar after his participation in the Philippine Development Forum (held also in Cebu City) expressed support for the RRTS and indicated the availability of substantial funding at the DBP for investments in the RRTS.

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.

The President of the Philippines, Ms. Gloria Arroyo, highlighted the beneficial impact of the road and RORO network in her State of the Nation Address (SONA) on July 23, 2007, which she said “has cut the cost of bringing agribusiness products from Mindanao to Luzon. A ten-wheeler (*truck*) used to pay Pesos 32 thousand from Dapitan to Batangas. Now it pays Pesos 11 thousand. Fresh fish that cost Pesos 20 thousand a ton move now travels at Pesos 14 thousand.” In the same SONA, she mentioned the different RORO links, including Aroroy that was the

subject of EMERGE's technical study, that will eventually lead to better domestic integration and market development.

Reform Result 3.1.3 Roads adequately maintained

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

The EMERGE TA was a response to a request of Executive Director Rodolfo Puno of the Road Board Secretariat to help the government improve the utilization of the Road Fund. C. Virata and Associates finalized and submitted its report on the Road User Fund to EMERGE. 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: *1) 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.*

2) Increased competition with 34 NTC-licensed VOIP providers/resellers 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: 1) 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.

2) On 28 June 06 the NTC officially convened a Technical Working Group to assist in the development of draft rules to enable Reference Access Offers (RAOs). RAO rules are seen to enhance competition by mandating, among others, default interconnection arrangements between providers and carriers.

3) EMERGE, at NTC's request, provided TA in identifying key issues and policy recommendations for consideration by the NTC. The NTC subsequently issued Memorandum Circular 10-07-2007 on July 19, 2007 mandating the development of RAO to facilitate fair and expeditious interconnection or access between service providers.

4) The EMERGE competition policy team submitted a draft consultative document on the imposition of 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 the imposition of 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

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. The NTC issued a memorandum circular mandating the development of RAO between service providers on July 19, 2007.

USAID approved the request for the extension of EMERGE TA to NTC on 21 Sep 06. The period until June 2007 was to be used to help NTC develop the guidelines on the imposition of Significant Market Power Obligations (SMPO) and the rules on Reference Access Offers (RAO). Joy Abrenica and Jhiedon Florentino worked on the draft rules for the implementation of the imposition of SMPOs and RAOs.

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 expected to issue the RAO final guidelines on or before the second semester of 2007.

The consultant team continued with their technical assistance to NTC by helping to draft guidelines on the imposition of SMPOs and RAOs. A technical working group organized by NTC, composed of private sector representatives and key NTC personnel, reviewed and commented on the draft guidelines submitted by Joy Abrenica and Jhiedon Florentino. Gigo Alampay and Gilbert Llanto provided technical support to the TWG and the consultant team (Joy and Jhiedon).

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) The LMIP assisted in the set-up, design and evaluation of 66 Community e-Centers(CeCs) throughout the archipelago. Ten CeCs are operated by community organizations and non profit institutions, ten CeCs are managed by LGUs and 46 are implemented by public schools as part of the CICT's CeC ischools component.*

2) Community e-centers (CeCs) in Catmon, Alcantara, Borbon and Sogod, all in Cebu, Maitum and Malapatan, both in Sarangani, Aleosan in Cotabato, Manolo Fortich LGU and a public community college in Bukidnon, Mountain Province General Comprehensive High School in Bontoc, Mountain Province, Kiangon 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.

3) The LMIP team successfully conducted 2 seminar/workshops for CeC staff and trainers training for the Manolo Fortich CeC and the Casa San Miguel CeC. . 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.

4) The team conducted web development workshops for the Kiangon 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

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.

6) In support to the iSchool CeC program of the CICT, the LMIP developed the e-learning Web Board - teacher managed instructional website that students can access online before or after the classroom based instruction. The Department of Education issued on April 27, 2006, DepEd Memorandum No. 167 to officially launch the i-Schools Webboard Training Program. The DepEd and CICT, in cooperation with LMIP and Intel Philippines, conducted the pilot runs of the iSchools Webboard for the different levels in DepEd including the following:

6.1 Conducted a training program for more than 54 participants from 18 public high schools nationwide from May 15 to June 2, 2006. All teacher web boards can be accessed online at www.ischoolwebboard.atspace.com.

6.2 Conducted Web Board Training for 15 DepEd ICT Regional Coordinators

6.3 To integrate individual teacher Web Boards into a School Web Board, and Regional Web Boards, the team conducted a pilot regional Web Board training for the Leyte region where 30 teachers from 10 schools participated.

6.4 Apart from the Web Board Program for the Department of Education, the LMIP also partnered with Gawad Kalinga, a non-government organization dedicated in building homes for the poor, in developing a facilitator web board and an online e-learning resource portal for its youth centers in four community sites. The team conducted a training workshop for 20 volunteers and facilitators for 4 Gawad Kalingayouth centers with emphasis on utilizing the eSkwela module of the CICT for Out-of-School Youths (OSYs).

7) The LMIP team partnered with the Philippine General Hospital- University of the Philippines, College of Medicine in developing telemedicine solutions and content which could be deployed in CeCs. The collaboration resulted in the development and design of multi-media modules focused on common related community concerns including the following: poisoning prevention, avian flu, tuberculosis, and stroke. One of the telemedicine modules was already pilot-tested in Basak-Pardo CeC in Cebu where 50 participants from the city health office, barangay staff, barangay health workers group participated in the half day workshop including an online discussion with PGH experts using VoIP.

8) The LMIP team, in partnership with the United Nations Development Program, developed a study entitled "Pro-Poor e-Governance Applications- A Study on ICT applications with high development impact in the Philippines."

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. After successful initial set-up of CeCs across the nation, the LMIP developed a website to showcase

best practices, successful modules, community experiences, infrastructure configuration and stakeholder involvement. The website can be accessed at www.lastmileinitiative.ph

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 addition to the Performance Milestones Achieved that are listed above, the team trained four LGU based CeCs in Oriental Mindoro on web development using open source programs with emphasis on the creation of a jobs web page. In view of the impending extension of the EMERGE contract, EMERGE requested USAID approval of other activities under LMIP during the months of July and August 2007.

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 Commission on Information and Communication Technology (CICT) accepted and approved the beta website for its Strategic Plan Road Map.*
3) *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. 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 was accepted and approved by both CICT and EMERGE, it can be viewed at <http://lastmileinitiative.ph/stratplan/>. EMERGE completed this task.

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.

Performance Milestone Achieved: *The Asset Inventory Management System (AIMS) and data base designed by EMERGE consultants has been enthusiastically accepted by the DOF Privatization Office, where it has been installed, and PO and PMO staff have been trained in its use.*

At the request of then 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 consisted of establishing a comprehensive data base inventory of government assets to be privatized, while guidelines for privatization were to be prepared during the second stage (which was never undertaken because of funding constraints). EMERGE consultants were also to train selected staff members of the DOF Privatization Office (PO), the PCGG, LBP and the Privatization Management Office (PMO) on the use of the Asset Inventory Management System (AIMS) they developed.

The EMERGE consultants encoded data and designed 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.

Tekk and Ronald presented the system to Undersecretary John Sevilla on April 2. EMERGE and the DOF PO reviewed the remaining requirements for a good asset inventory management system and concluded that the PO 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 on March 16, 2007, asking for assistance on the additional technical work for a complete asset inventory management system. EMERGE requested USAID approval of these additional tasks on March 20, 2007, and a revised version of that request, including the purchase of a high-speed scanner for DOF/PO, was finally approved on June 5, 2007.

Tekk and Ronald conducted training on the asset inventory management system (AIMS) for selected staff members of DOF Privatization Office, Presidential Commission on Good Government (PCGG), Land Bank of the Philippines and the Privatization Management Office on July 20, 2007 at the Pan Pacific Hotel. After the training, Tekk and Ronald installed the AIMS at the DOF Privatization Office and the disposition entities (PCGG, LBP, PMO).

Task 3.3.2.1c-e 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: *Previously 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 .(9) In May the Privatization Office, together with PMO, conducted the auction for the sale of shares in the bank. No bidders came forward an submitted bids. The process was declared a failed auction*

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 Secondfirst quarter of 2007: (1) the DOF Privatization Office obtainedrequested a legal opinion from the Department of Justice that would allow for the refinancing of the equity without Congressional approval, and (2) met extensively with DOTC and 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.*

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.*

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. Prospective bidders (a foreign bank in Bahrain, represented by Peregrine and a large domestic bank conducted due diligence. DOF scheduled the bidding for Al Amanah on May 21, 2007. However, there was a failed bidding because the prospective bidders did not submit any bid due to concerns over the liabilities and disposition of ROPOAs of the bank. The government is currently exploring an alternative strategy—purchase by DBP. The Development Bank of the Philippines has expressed interest to acquire the bank and has started a due diligence.

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. (3) the bids were opened later in April However, there was failure in bidding for the Iloilo Airport property because none of the bidders met the minimum bid price of 1.2 billion Pesos set by DOF. A negotiated sale failed to materialize because the price quoted by the highest bidder was below government's minimum reference price of Pesos 1 billion. The government is currently studying other options for the disposition of Iloilo Airport.*

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 specific assignments to each of the consultants. Sunny Sevilla's main tasks concerned the financial aspects of privatization affecting PNCC, Al Amanah Islamic Bank, Iloilo Airport, IBC-13, Philippine Postal Corporation, and RPN-9. Job Ambrosio handled legal aspects of privatization. Ray Davis assisted 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. 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, 2006.

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 USAID approved it on January 4, 2007.

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.

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.

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 was intended to be accomplished 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. Potential foreign investors from Dubai and Malaysia had expressed interest in it but wanted 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. On the bid opening date no bids were submitted with the potential bidders informing the DOF that they were unable to completely assess the liabilities of the bank that they would assume as new owners. The government subsequently has been discussing a negotiated sale with a potential purchaser.

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. However, the Government later suspended the bidding process for this project, so the advisory work on the gold mine did not continue.

MRT-3: 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. During the Quarter the DOF obtained an opinion from the Department of Justice that the MRT-3 lease rental obligations could be refinance with sovereign debt without an act of congress approving the refinancing. Subsequently DOF and DOTC met with representatives of the equity holders. Following the issuance of the DOJ opinion, the equity holders increased their demands insisting that the government share the \$700 million present value savings with the holders.

PTIC Shares: 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.

Iloilo Airport: 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, 2007. 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. On opening the bids in April non of the bidders met the threshold level of 1.2 billion Pesos set privately by the Privatization Council. The government subsequently has been discussing options for the sale, including the possibility of re-bidding or a negotiated sale. The DOF was to schedule the bidding sometime in April.

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.

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) 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 was to help build the BSP's capability to undertake the Philippine Consumer Finance Survey. In particular, Dr. Kennickell was to 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 was expected to take leave from his work to travel to Manila twice during the period from January to March 2007.

However, BSP and EPRA informed EMERGE that Kennickell's visit to the BSP this year could 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 4.1.1.2a 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 (CMRA 2)

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 Barin 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.

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 CMRA 1. However, 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 CMDC would support. CMDC focused on the financial sector taxation reform (Task 4.1.1.3(b)), while the BSP officials asked for assistance in adapting the country’s Basel 2 obligations to Philippine conditions (Task 4.1.2.4(d)).

Task 4.1.1.3a&b 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 Capital Market Development Council (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.

The study was presented to CMDC at a meeting on July 19, 2006, chaired by Finance Secretary Margarito Teves, which was well attended. 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 was 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 was selected to implement the activity. USAID approved it on October 12, 2006.

The team presented its proposed framework to achieve tax neutrality, preliminary findings and recommendations to the CMDC’s Tax Concerns Team during a meeting on Feb. 28, 2007. There was 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).

There was agreement to include reinsurance in (e). 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.

The team conducted several meetings with key stakeholders during the last quarter to discuss its recommendations to achieve tax neutrality for the financial sector taking into account DOF's concerns regarding possible loss of revenue. The first meeting was held on 23 April with the private sector members of the CMDC. The team pointed out that the reform package it has recommended to achieve tax neutrality will lead to a revenue loss of about Php5 billion using historical interest rates. Considering that interest rates have gone down considerably in the past two years, the revenue loss can go down as low as Php2 billion. The team also presented proposed amendments to some of the provisions of the National Internal Revenue Code and BIR administrative issuances. The private sector members of the CMDC expressed support to the team's findings and recommendations, but suggested a few revisions and additional data that they might receive, especially those from the insurance sector.

The team presented its findings and recommendations to DOF officials led by Usec Beltran on 11 May. The DOF demonstrated openness to the team's recommendations. While they noted potential revenue losses tentatively above P5 billion, they were more concerned about raising the saving rate and further developing the financial and capital markets and eliminating tax arbitrage in the financial sector. Present at the meeting were Undersecretary Gil Beltran, Director Teresa Habitan, Director Ma. Lourdes Recente, Stella Montejo, NTRC Executive Director Lina Isorena, and the Finance Secretary's Chief of Staff, Lea de Leon.

The team presented its report in a final workshop on 29 May at the BSP. Present during the workshop were, among others, Director Habitan (DOF), Ms. Amatong (Monetary Board), Ms. Herfi (BIR), Mr. Virata (BAP), Mr. Coronel (BAP), Mr. Salazar (CMDC), and Ms. Manabat (CMDC). The team agreed to secure additional data from industry players and to revise the report.

The team met and finalized its write up for submission. This included a draft law based on the recommendations made.

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 was 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 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 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 began 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 as well as 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. This resulted in the follow-up Task 4.1.2.4e, reported below.

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.

After securing USAID approval of this project on January 17, 2007, Lamberte organized an inception meeting to ensure that BSP, EMERGE and the consultant, Dr. Noet Ravalo, had common expectations of the project, reviewed the deliverables, determined timelines for various activities and secured commitment from BSP to gather data needed for the project that are not publicly available. 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.

The later portions of the market risk component were completed in the month of May. At the request of Deputy Governor Espenilla, a special presentation was structured and conducted at the BSP Executive Business Center for the BAP Open Market and Risk Management Committees. The consultant presented the results of the empirical tests, highlighted possible policy implications and responded to the various queries raised by the participants. Monetary Board Member Dr. Vicente Valdepenas provided the closing remarks and commented that work of the consultant has been “prodigious” and that the results reflected a “comprehensive validation” of the BIS market risk model. Dr. Valdepenas further commented the work being undertaken by the consultant is “frontier-defining” since no other central bank in the region has either designed or undertaken such empirical tests.

The consultant presented the Component B results to BSP & BAP officials on the 18th of June. Deputy Governor Espenilla presided over the presentation and in attendance were the members of the BAP Risk Management Committee (headed by Mr. Omar Mier, President of PNB and Chairman of the RMC), BAP Executive Director Leonilo Coronel as well as BSP-SES officers.

After presenting the technical framework and the consultant’s findings and recommendations, an open discussion ensued. Since a critical element was the quality of the data provided by the banks, much of the discussion focused on the steps that may be taken to address the issue. The BAP had raised the possibility of conducting a re-validation of the tests using a second round of survey where the variables/methodology would be clearly pre-identified. The consultant noted that this is certainly an option after this TA but also pointed out that it was a deliberate effort to evaluate the present state of available credit data in view of the 2010 tentative start for internal ratings.

Deputy Gov. Espenilla expressed his appreciation for the consultant’s efforts to highlight the key policy issues and the empirical support for such issues. He said that the BSP may push back the 2010 timetable based on the findings of this TA but he also noted that the policy issues go deeper. While being open to another round of survey data and further tests, Deputy Gov. Espenilla highlighted the consultant’s recommendations of standardizing the definition and handling of credit data and the need for a monitoring system to maintain the standards of quality control.

There was also some discussion on the methodologies used. Mr. Alex Patricio of ING noted that banks will eventually have to do exactly what the consultant has done if these banks are to come up with the needed credit risk parameters. In this sense, the empirical work done by the TA has set a benchmark for further action although he also would suggest another round of data tests/validation.

It was agreed that the matter will be taken up at the next BAP Board meeting and discussed further at the Risk Management Committee. Gov. Espenilla told the consultant afterwards that he would like to get the consultant’s inputs on concrete steps that need to be taken to move forward.

The consultant submitted to both the BSP and EMERGE his final reports for both components on June 21. BSP has accepted these final reports.

Task 4.1.2.4e. SME Business Development Support Services: Geographic Indicators Code System (GIC)

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.

EMERGE received letter from BSP on 18 May 2007 requesting assistance to conduct a workshop on Geographical Indicator Codes. Lamberte prepared the TOR for this activity, including the workshop facilitator and rapporteur. EMERGE sent the TOR to USAID for approval, which was received on June 5, 2007.

The half-day GIC workshop was finally held on July 24, 2007, at Pan Pacific Hotel for 70 participants. The participants included representatives from DOF, BSP, BAP, RBAP, CTBP, DENR, DILG, BIR, NAMRIA, two real estate associations, city assessors, the League of Governors and the League of Municipal Mayors. Mito Aldave, Muriel Toledo and Gilbert Llanto worked with Atty. Prudence Kasala in organizing the workshop.

BSP Deputy Governor Nestor Espenilla opened the workshop and stayed for two of the key presentations. Mr. Ian Lloyd presented a paper on "Lot Identification and the Land Administration Process", in LAMP2's project. NSCB DG Virola designated Ms. Lina Castro as the presenter of NSCB's geographic information code (GIC). Ms. Castro presented his paper on "The Philippine Standard Geographic Code: Its Structure, Features and Uses".

The participants suggested a GIC that is a hybrid of the following: The DENR/Land Management Bureau's cadastral survey based code provides the unique identification, while the NSCB's Philippine Standard Geographic Code (PSGC) and the LGU's Property Identification Code provides the convenience of retaining the higher level coordinates of the property.

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

Performance Milestone Achieved: 1) 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. 2) BSP also accepted the framework for Bayesian estimations of a dynamic stochastic general equilibrium (DSGE) model of the economy prepared by EMERGE consultant Dr. Paul McNelis for its use in forecasting inflation.

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 on an output gap model 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 2006 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.

Dr. McNelis and EMERGE recommended a 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.

Lamberte prepared a TOR 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 2007 and in the following month, McNelis visited BSP to initiate the new task and to help the BSP Center for Monetary and Financial Policy (CMFP) staff develop a generic proto-type DSGE model which they can work on using Philippine data. 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 planned to come

back in May and June to continue his work. At the end of the TA, BSP was expected to have a small but operational DSGE model.

From end of May to the last week of June 2007, McNelis worked with the CFMP staff on the prototype DSGE model, which the staff will modify and evolve according to their own specification for the Philippine economy.

He conducted several meetings on calibration of the parameter values of the model appropriate for the Philippine economy. He also had extensive discussions about alternative, somewhat sensitive assumptions. The model was simulated under these assumptions to see the implications in the full model context.

McNelis also did several Bayesian estimations of the model, after having lectured the CFMP staff on this special method for doing econometric estimation. Several interesting conclusions were obtained. McNelis presented a report to the staff as well as to several higher officials at BSP on the last day of this visit, June 22, 2007. Dr. Vicente Valdepenas presided at the meeting. There was a lively and productive discussion.

Fr. Paul McNellis submitted his final report to Director Francis Dakila, BSP, who subsequently indicated his acceptance and approval.

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

Performance Milestones Achieved: 1) *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.*

2) With EMERGE assistance, the formal launch of the MDFO PROLEND program and distribution of the manual, brochures and primer was held on August 6, 2007, at the Pan Pacific Hotel for around 100 participants.

3) EMERGE Consultants provided application templates for policy based loans to local government units, which were tested in field applications at the provinces of Misamis Oriental, Rizal and Iloilo.

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 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 was then to be reconciled with the original MDFO PROLEND Brochure. The harmonized brochure was 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 was sent to MDFO for final approval.

Stu, Lamberte and Vicente met with Ms. Habulan to inform her that Dr. Llanto will be overseeing and monitoring the project starting on 1 June and also discussed the remaining activities to be completed under the earlier project. Habulan enumerated the following remaining activities:

- a. Completion of the Brochure and printing of 1,500 copies
- b. Completion of the Primer and printing of 1,500 copies

- c. Completion of the Templates for the standard forms in CD
- d. Launching of the PROLEND in June.

On 31 May, Callison, Lamberte and Fernandez met with the consultants regarding these unfinished activities. Mr. Fabre promised to deliver the Brochure and Primer to EMERGE on the following week for printing.

The team finalized the PROLEND brochure and primer with a number of consultation meetings with Director Habulan of MDFO.

Ms. Habulan sent a letter to Callison requesting that the second phase of this activity begin. 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.

Ms. Habulan sent a letter to Callison requesting that the second phase of this activity begin. Lamberte prepared the TOR for this task. A request for approval of the second phase of this activity was sent to USAID on March 12, 2007, and was approved on April 23. Mr. Raymund Fabre and Mr. League were tapped as consultants.

Lamberte organized an inception meeting for this project at the MDFO's office. Mr. Fabre was to cover Negros Oriental while Mr. League will be assigned to Misamis Oriental, Rizal and Iloilo. The four provinces will most likely request policy loans of about PhP200 million each, which is the ceiling under the PROLEND to support reform initiatives such as health reforms (e.g., expenditure and revenue management system) and real property tax reforms.

Lito League and Raymund Fabre worked with the provinces of Misamis Occidental, Rizal and Iloilo on their respective program lending proposals to be submitted to the Municipal Development Fund Office.

Task 4.2.1.2a&b 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 (Task 4.2.1.2b).

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 Development 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 was aimed at improving the capacity of the CDA to supervise and regulate cooperatives with savings and credit services. The TA was broken down into three main 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 NCC design and supervise the three main components (and several follow-on subcomponents, discussed below) 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. For (i), Lamberte and Cecille assisted the Selection Committee, composed of NCC, CDA and EMERGE officials, in selecting a vendor, the Conflict Resolution Group (CoReGroup) Foundation, 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 enhance synergy among the TAs to CDA, ensure proper sequencing of specific activities of these TAs to increase their effectiveness and monitor all TA for CDA. Mr. Almario, chairman of the NCC 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 was assigned to be the coordinator for the basic training course project, Ms. Caingles for the ADR project and Ms. Hwang for the database project.

During the last quarter, Lamberte attended a coordination meeting organized by the NCC Core Group. CHF International reported that they have already started developing the software for the Cooperative Identification Number, which is part of the E-Link, an off-shoot of the EMERGE database project. This will be turned over to CDA by the end of May. It was agreed that CHF can already start working on the software for the database using the draft data collection instrument prepared by the EMERGE consultants.

Upon the request of NCC, Dr. Lamberte prepared a TOR for a follow-on ADR activity focusing on capacity building of CDA and cooperatives to implement the CDA-approved ADR implementation guidelines.

Lamberte also prepared a TOR for the pre-testing of the new CDA data collection instrument developed by the consultants. He and the consultants assisted Ms. Hwang of CDA in presenting and discussing the newly developed data collection instrument, the Cooperative Annual Performance Report (CAPR) to the CDA Board of Administrators (BOA).

In response to NCC's request, Lamberte then prepared a TOR for a corporate governance seminar for the CDA Board of Administrators. He and Ms. Robles assisted the Selection Committee, composed of NCC, CDA and EMERGE officials, in selecting a consultant to implement the task.

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

Performance Milestones Achieved: *On March 20, 2007, the CDA Board of Administrators approved the ADR Framework for the cooperative sector and issued the following memorandum circulars 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.*

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 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 was 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 were:

- 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 expected 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 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 technical working group (TWG).

The CoReGroup Foundation 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.

The TWG of the CDA 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 Board of Administrators (BOA). 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 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 more 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 CDA Charter, 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 Milestones Achieved: 1) 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 a massive inspection using the newly developed data collection instrument. CDA will use the database system and improved instruments for gathering reliable and consistent sets of data that EMERGE helped design to effectively supervise and regulate cooperatives with savings and credit functions.

2) CDA Chairperson Juarez and Director Almario and the CDA Board of Administrators approved the new data collection instrument and manual drafted by the EMERGE team and organized an extensive training program in its use.

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

- 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 had 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 were suspect. Thus, instead of relying only on the accomplished IWPs to verify the reliability of the data, they visited 6 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 were then used as inputs in developing an appropriate data-collection instrument and manual of operation for such instrument.

The preliminary findings gathered from the team's visits to CDA regional offices in Iloilo City, Cebu City and Davao City confirmed 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 considered these findings in designing a new data gathering instrument that would generate more useful data for CDA's supervision and examination function.

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 agreed to use it to come up with a census of cooperatives prior to conducting 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.

Based on the feedback received from a sample primary cooperatives and CDA regional cooperative development specialists on the draft Cooperative Annual Performance Report (CAPR), the team prepared separate templates for the statement of financial condition and statement of operations for the following types of cooperatives:

- a. Cooperatives with savings and credit services only;
- b. Transport cooperatives;
- c. Consumer cooperatives; and
- d. Cooperatives engaged in multiple business activities.

The consultants discussed the revised CAPR with CDA senior officials. Based on their assessment, the senior officials considered the CAPR a better data collection instrument than what CDA used to have and endorsed its approval by the CDA Board of Administrators (BOA).

During its regular meeting in April, the BOA approved the CAPR subject to a few changes suggested by some its members. It also approved the preparation of the manual for the CAPR to start in May and the conduct of training of trainers in June.

EMERGE consultants presented the draft manual to the CDA and the NCC for comments during the first week of June. Revisions were made based on the comments raised.

Payday and Gilbert met with Director Almario of NCC, CDA Chairperson Bing Juarez and Mayette Hwang, also of CDA to present the final draft of the manual for the data collection instrument. Following approval of the new data collection instrument and manual by Chairperson Juarez and Director Almario and the CDA Board of Administrators, the EMERGE team worked with Mayette and Bernie to prepare for the training of CDA cooperative development specialists.

The proposed training of trainers for CDS specialists on the use of the Manual was moved to July to give way to the basic training on supervision and regulation and the training of mediators under the Alternative Dispute Resolution project. It was also agreed that the proposed training of trainers will focus more on training CDS participants to collect and validate information submitted by the primary cooperatives. Hence, instead of conducting a training of trainers wherein participants will also be taught the basics of “how to train”, it was agreed that an orientation seminar on validating the information in the CAPR will instead be conducted. The EMERGE team conducted training on the new data collection instrument and manual for 45 cooperative development specialists in Phinma Center, Tagaytay City on July 19-21, 2007 and for 42 cooperative development specialists in Davao City on July 23-26, 2007.

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 was 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 it on November 15, 2006.

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 it 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 prepared 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 was 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 was to 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 this course.

The consultants and their resource persons who are all from the Bangko Sentral ng Pilipinas completed the basic training course on regulation and supervision in three batches on 3-5 May for Luzon, on 10-12 May for the Visayas and 17-19 May for Mindanao. Some 90 CDA staff including the Chairperson and one member of the Board of Administrators attended the basic training course. NCC also sent three trainees to this training program. The trainees greatly appreciated the training program, especially since that was the first time they come to understand the job of a financial regulator and supervisor and activities that need to be done before, during and after examination of a financial cooperative.

Twenty six CDA cooperative development specialists underwent training on the supervisory process and the development of skills on adult learning, facilitation skills and presentation skills on June 6-9, 2007, in Phinma Training Center in Tagaytay City. Thirty-five CDA cooperative development specialists were trained on June 25-30, 2007 in Davao City. The attendees had all taken the seminar on supervision and regulation conducted earlier. Two members of the Board of Administrators of the Cooperative Development Authority also participated in the seminar.

Task 4.2.1.2f ADR Training Modules and ADR Training for CDA and Cooperatives

Expected performance milestones: *Reduced number of intra- and inter-cooperative disputes submitted to CDA for resolution so that CDA can allocate more time and resources to the regulation and supervision of 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 was proposed as the consultant firm on a sole-source basis for the follow-on activity. Three Basic Mediation Training sessions were conducted. The first two covered participants coming from the Cooperative Sector while the third session consisted of representatives of the CDA. The first training was conducted at the NATTCO office in Cubao, Quezon City, on May 15-26, 2007; the second was held in Cebu City on May 28 to June 8, 2007. The third training batch, which consisted of 30 CDA officers and personnel, was conducted from 12 to 23 June. The first week of training was held at the PHINMA Training Center in Tagaytay. Then the group moved to Robinsdale Hotel in Quezon City for the internship. A total of 122 individuals completed the program which consisted of 5 days of classroom training and another 5 days of internship activities.

EMERGE also supported a special 2-day Training of Trainers program for Coop Sector ADR Trainers. Fifty top trainees from the coop sector and 10 from CDA were invited to participate in the Training of Trainers program held on June 25-26, 2007, at the Tiara Oriental Hotel, Makati City.

As part of its deliverables, CoRe Group presented 245 pieces of the “How to Mediate” DVD Learning Kit to the CDA during the closing ceremonies of the third training batch on June 23 at the Robinsdale Hotel, Quezon City. Participants were given their complementary copies of the “How to Mediate” DVD Learning kit. Most of the kits were distributed to the participants during the Training of Trainers Program. The remaining 5 were sent to EMERGE. The DVD Learning kits consisted of a 32-page manual and an estimated 40-minute instructional video.

CoRe Group prepared and submitted to CDA ADR Primer, Mediation Forms and Code of Ethics. The CDA Board subsequently issued a letter signifying their acceptance of these reports.

CoRe Group presented the draft 3-year Development Plan, which consists of the strategy for implementation, monitoring and evaluation of the ADR process to the Batch 3 (CDA Group) trainees during the last day of their ADR Training at PHINMA, Tagaytay.

Task 4.2.1.2g Corporate Governance Seminar for the CDA Board of Administrators

Performance Milestones Achieved: 1) *The CDA Board of Administrators approved on May 19, 2007:*

- a) *a manual on corporative governance,*
- b) *a memorandum circular on completed staff work*
- c) *a CDA vision statement, and*
- d) *a CDA mission statement.*

The first two were developed during the EMERGE-sponsored workshop on corporate governance immediately preceding the Board meeting and the latter two were suggested during the same workshop.

NCC requested EMERGE assistance to conduct a 3-day corporate governance seminar for the CDA Board of Administrators (BOA). 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 was to meet on 3 April to deliberate on the four proposals and select the consultant for this activity.

The seminar-workshop on corporate governance was conducted by the De La Salle Professional School (DLSPS) for the CDA BOA at the Marco Polo Hotel, Davao City, from May 16-18, 2007. The following attended it: Administrators Lecira Juarez, Rosalinda Villaseca, Manuel Lapena, Segfredo Buagas, Joselito Almario, and Niel Santillan (executive director). Administrators Fulgencio Vigare, Jr. and Salaman Manca joined the workshop on the second day. All except one member of the CDA Board of Administrators (BOA) attended the workshop. At the end of the seminar/workshop, the BOA produced two major outputs: (1) a manual on corporate governance for the CDA; and (2) a memorandum circular on completed staff work.

During the seminar/workshop, the BOA realized that CDA has a vision statement for the cooperative sector but not for the agency itself. EMERGE consultants advised the BOA to develop vision and mission statements for the agency to serve as a guide for developing CDA's medium- and long-term goals and strategic plans. Thus, during its regular monthly meeting held immediately after the seminar/workshop, the BOA crafted and subsequently approved the vision and mission statements for the CDA after considerable discussion. This is considered a significant achievement. During the same meeting, the BOA also approved the two outputs of the seminar/workshop.

Task 4.2.1.2h CDA Workshop on Merger/Consolidation Guidelines

On June 19, 2007, USAID approved a CDA request for EMERGE to sponsor a workshop on procedures, policies and guidelines in the implementation of its cooperative merger and consolidation program. Subsequently, EMERGE consultants Fred Domo-ong, Ramon Reyes, Christine Tan and Celedina Garbosa conducted training on merger and consolidation guidelines for 29 CDA staff members in Phinma Center, Tagaytay City, on July 3-5, 2007.

Fred Domo-ong and Ramon Reyes also conducted a seminar on merger and consolidation guidelines for the CDA Board of Administrators at Annabelle's Restaurant in Quezon City on July 17, 2007.

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 nongovernmental 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 was 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, was 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. PACT requested and was granted a realignment of the grant budget and a no-cost extension through April 30, 2007. The grant was further amended to extend completion date to June 15, 2007. The final invoice and the final deliverables of the grant were submitted in July. Final payment of the grant will be processed after acceptance of the final deliverables which are being reviewed as of July.

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, 2006. At AIM's request, the grant agreement was amended to reflect a no-cost extension through December 31, 2006. The final report from AIM was accepted by EMERGE in May, and final payment was made to AIM in the same month. The grant was closed and a certification of grant close out was signed by both EMERGE and AIM in May.

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, 2006. The Grant Agreement was finalized and signed by UPLBFI on Oct. 30. Cecille conducted a review of selected expenditures of the grant on Delayed Papaya Ripening on June 21 at UPLBFI office in Los Banos, Laguna. The accounting records for the grant were found to be in order and no findings were reported. The final report for the grant is being reviewed as of end of June.

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, 2006. Dr. Desiree Hautea is the proponent. The Grant Agreement was finalized and signed on October 11. A review of selected expenditures of the PRSV Papaya grant was conducted on June 22 at the ISAAA office in Los Banos, Laguna. ISAAA submitted its response

to the review findings in July. ISAAA's response to the review findings is pending review and acceptance as of July.

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, 2006. Dr. Desiree Hautea is the proponent. The Grant Agreement was signed by UPLBFI on October 13 with a grant end date of June 30, 2007. As part of the grant closeout procedures, Cecille conducted a review of selected expenditures of the FSBR Eggplant grant on June 21 at UPLBFI offices in Los Banos, Laguna. There were no major findings on the reviewed transactions. Some transactions require justifications, and some expenses required reclassification to conform to the approved budget. UPBFI accepted the findings and submitted justifications and actions made in July. The final deliverables are being reviewed as of end of June.

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, with an end date of July 19, 2007. Cecille conducted a review of selected expenditures of the grant on biotechnology policy at the ISAAA office in Los Banos, Laguna. ISAAA submitted its response to the review findings in July. ISAAA's response to the review findings is pending review and acceptance as of July.

Task 2.2.2.3a 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. The grant ended in February, 2007. Cecille conducted a post review of selected expense transactions of the grant in May. Amcham completed the actions required from the post review in July. The final deliverables were accepted and final payment was made in the same month. The grant was closed and a certification of grant close out was signed by both EMERGE and AIM in July.

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. The grant ended on June 30, 2007. Amcham is working on the final report as of July.

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 has been received from the Chamber.

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 1.1.1.1 BIR One Time Transaction Tax (ONETT)

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. The installation and soft launch of ONETT had been repeatedly moved to later dates. As of June 30, the BIR has not finalized a date for the launch.

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, 2006. The PO was executed and signed by the vendor on September 15. The final deliverables were accepted by EMERGE in November, 2006. The vendor was paid in final and the activity was closed in December, 2006.

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, 2006, 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. The final deliverables were submitted and accepted by EMERGE in July, 2007. The acceptance of the final report and payment in final to the vendor marked the completion of the activity.

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 17, 2006, 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. DLSU submitted the final deliverables in June, and were accepted by EMERGE in July. The activity was closed after final payment in the same month.

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, 2006. The PO was issued to SGV on July 11. The PO to SGV was amended to reflect a no-cost extension up to June 15, 2007. Cecille attended a meeting and a presentation of the final training modules in BIR on April 26 wherein she provided inputs to an exchange of opinions on the appropriate notation, acknowledgement and disclaimer to be placed on the training modules produced by SGV. The final notations agreed by all parties recognized on its specific segment each one's contribution, and a generic notation that acknowledges USAID funding, and provides a disclaimer as well as prescribed by USAID regulations. The final deliverables were submitted and accepted by EMERGE, the activity was closed in July, 2007.

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. At DAP's request, the 2nd PO was amended to reflect a realignment of funds and a no-cost extension through May 31, 2007. 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. In April, EMERGE, DAP and DBM discussed and resolved issues on pending overdue deliverables of DAP. While the delays in DAP's submission were caused by events beyond DAP's and DBM's control, it was agreed that DAP will write the reports based on results of meetings with experts and the experts' discussion of available drafts of rationalization plans with DBM. As of mid-May, two remaining reports need to be written up, i.e., 1) labor sector report and 2) financial sector report. DAP requested and was granted last no-cost extension of the PO to June 15, 2007. The final deliverables were submitted by DAP on June 15, and are being reviewed by end of June.

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 2006. 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. The activity ended on June 30, 2007. Final deliverables are being reviewed as of July.

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 was to 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. The PO 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 2.1.3.1b 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. Cecille reviewed the 2nd tranche payment of CVAI for compliance and endorsed it for payment on April 18. The Purchase Order to CVAI was amended on April 25, 2007, to allow a no-cost extension to May 31, 2007. The PO was further extended to June 15. All deliverables were submitted by CVAI and are being reviewed by end of June.

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, 2006, 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.

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, 2007.

The TOR for Phase 2 was approved by USAID on January 22, 2007, 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. In May, Xytron International was competitively selected to provide scanning services for the BPS. Scanned and converted to pdf files were Philippine National Standards (PNS) in hard copies that needed uploading into the S&C portal. Xytron completed the scanning services by May 31. Final deliverables were submitted by Systema in June, which were accepted by BPS and EMERGE in July after conduct of the users' training at BPS. The PO to Systema was closed in July, 2007.

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 subcontract was closed in March 2007 and final payment was made to the subcontractor, IATP, by the CARANA home office.

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 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. The

final deliverables were submitted and accepted by EMERGE in July, 2007. The activity was closed in the same month.

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. 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. The term of the PO ended on June 30, 2007. The final report was submitted in July, and was being reviewed by end of July, 2007.

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 involved 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. Final reimbursements for this activity was made in May, 2007.

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, 2006, 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. The activity was closed in December, 2006 after Think Ideas delivery of the printed copies and CD of the ICT Roadmap.

Conferences, Seminars and Workshops

RR 1.1.1 DOF Finance Planning Workshop 7-8 July 2005

Mr. Alex Escucha was engaged through a PO to facilitate this workshop held on July 7-8, 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

EMERGE shared in the cost of the International Food Exhibition sponsored by PhilExport and the GRP Department of Trade and Industry, May 11-12, 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 2.1.1 PCCI WTO Consultations

WTO consultations were held among the different business sectors in Mindanao, Visayas, NCR and Manila during August and September 2005. The results of the consultations will be used to develop a government framework and position for the forthcoming WTO ministerial meeting in Hong Kong.

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, 2006, 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. The account was closed in February 2007 after CITEM submitted the required documents, and final payment was made.

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, 2006.

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 2.2.2 CEBU 2005 ICT Conference 22-24 Jun 05

EMERGE shared in the cost of holding the Cebu ICT Conference on June 22-24, 2005

RR 2.2.2 National Export Congress Localization (Mar-Sep 2006)

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.

This was the third wave of localization efforts of the government to secure the commitments of the business sectors for their share in the national export targets in 11 regions, namely Regions I,

II, IV-A, V, NCR, VI, VIII, IX, X, XII and CARAGA. The localization activities were conducted from February through June, 2006, lead by the Export Development Council. Business sectors and government agencies were mobilized and gathered in a series of pre-fora and actual workshops and were able to identify issues and concerns, committed to a percentage share in the national export target, and developed a regional export development plan for their respective regions.

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 held on October 5, 2006, at the Intercon Hotel. The forum was to 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, 2006.

RR 2.2.2 National Competitiveness Summit 28 Sep 06

This event aimed to develop measures to improve the Philippines' standing in the 2006 World Competitiveness Reports of the World Economic Forum and World Competitiveness Yearbook. EMERGE agreed to share in the logistics costs. The summit, 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 focused 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. The final report is being reviewed by the counterpart, the CMDC as of end of July, 2007.

Task 4.1.2.4d Valuation and Risk Parameter Estimation for BSP—Basel 2 standards

This TA involved 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, 2007, 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. Cecille met with the group of Noet Ravalo, the EMERGE consultant, and Ms Dolly Yuvienco and Jermie Prenio of the BSP on May 10 to discuss Noet's concern of the possibility of his work spilling over beyond the June 30 deadline because of difficulties in sorting and analyzing the data on credit standings of SMEs for the credit risk component, and on an added task of validating the BIS market risk model. Cecille emphasized to the group that EMERGE will not accommodate any

extension beyond June 30, and that the group will have to work within that timeframe. The final deliverables were submitted by the vendor, Dr. Noet Ravalo and were accepted by BSP and EMERGE. The activity was closed in July, 2007.

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

This activity was about the development of alternative dispute resolution (ADR) mechanisms for CDA 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.

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 was 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. The CoRe Foundation was considered for the activity without competition since it was the same vendor who implemented Phase 1 activities, and that Phase 2 is a follow on of the first phase. Two training sessions were conducted in May and June participated in by CDA officers and staff, and by representatives from the cooperative sector. A Training of Trainers training culminated the training program on June 25-26, 2007, and was attended by outstanding graduates of the two training batches for the CDA and the cooperative sector. The activity was closed on June 30, 2007.

Task 4.2.1.2g Corporate Governance Course for the CDA

The CDA Board of Administrators (BOA) was provided training on corporate governance to allow it to gain exposure and knowledge of current good governance approaches and policies. The course provider was competitively selected from among those accredited by the BSP. USAID approval of the TOR was requested in March 2007. A review of bids was scheduled for April 3, 2007. During the quarter, the De La Salle Professional Schools was competitively selected from among three bidders that submitted a bid for the activity. The training was conducted on May 16-18 in Davao City. The course was attended by the member of the CDA Board of Administrators and Mr. Joselito Almario of NCC. The completion of the course marked the completion of the activity.

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, 2006. Final reimbursements for the two workshops were made by EMERGE to BSP in June, 2007.

RR 4.1.2 Participant Training: US Convention on Securities Markets, April-May 2005

EMERGE funded the travel and attendance of SEC Commissioner Jesus Martinez to the US Convention on Securities Markets held in Washington, DC, from April 18 to May 5, 2005.

RR 4.1.2 Participant Training: Securities Enforcement and Market Oversight, November 2005

Chairman Fe Barin and Atty Elmira Alconaba of the Philippine Securities and Exchange Commission (SEC) attended training on Securities Enforcement and Market Oversight at the U.S. SEC in Washington D.C., November 14-18, 2005. Chairman Barin proceeded to a study tour of the Depository Trust and Clearing Corporation (DTCC), New York Stock Exchange (NYSE) and NASDAQ on November 21-22, 2005.

RR 4.1.2 Participant Training: Study Tour of NASD, October 2005

EMERGE co-financed with the Asian Development Bank a study tour of the National Association of Securities Dealers (NASD) in Washington, DC, of Atty. Socorro B. "Johanna" Lerer, Compliance Officer of the Philippine Dealing and Exchange Corporation (PDEX) and Atty. Vicente G. Felizmenio, Asst. Director, Market Regulation Department, SEC, in October 2005.

RR 4.1.2 Participant Training: Improving and Expanding Housing Finance Systems, Wharton School, University of Pennsylvania, June 2007

Ms. Ma. Belen S. Fabella attended the program on Improving and Expanding Housing Finance Systems at the University of Pennsylvania on June 4-14, 2007. The program provided 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.

World Bank Philippine Development Forum, Davao, March 7-8, 2005

At the request of DOF Secretary Amatong and USAID approval, EMERGE funded the travel expenses of five NGO representatives to attend the World Bank sponsored Philippine Development Forum in Davao, March 7-8, 2005.

East Asian Seminar on Economics-PIDS, June 22-26, 2005

EMERGE shared in the logistics cost of conducting the East Asian Seminar on June 22-26, 2005, with the Philippines Institute for Development Studies (PIDS) as this year's sponsor.

Annual Meeting of the Philippine Economic Society (PES).

This 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 needed to be done was to see how EMERGE TA work contributes to success in its reform theme areas. Quantitative indicators were reviewed and updated to inform stakeholders of EMERGE accomplishments.

Winnie Vicente began documenting the impact of EMERGE accomplishments that may already have had 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.

To prepare for the project's closing in August, Winnie Vicente took stock of the existing and still-to be made available quantitative indicators that could be used in upcoming reports. To facilitate this, it was necessary for her to update the "Results Matrices" on the project's tasks, accomplishments and milestones. Not all tasks, accomplishments, and milestones were covered, though, but only to the extent that there could be direction in the search for more indicators of project impact particularly in the EMERGE "Trade and Investments" sector. After the inventory, Winnie studied the various global measures on "Competitiveness" to the extent made possible by internet sources. The survey on costs of doing business by The World Bank Group, which proved most useful for project purposes, allowed her to simulate scenarios on cost and time savings that could possibly be generated by two EMERGE projects: shipping and ports (which has already been completed), and the Bureau of Product Standards portal. She sought to supplement this exercise by gathering the base of information that would be needed to measure project impact at the Bureau of Product Standards, where procedural changes resulting from EMERGE assistance may possibly benefit importers and boost the country's overall competitiveness.

We had to rely on the EMERGE SPS Team at the DA to complete their set of baseline indicators on the speed at which approvals of Sanitary/ Phytosanitary permits are being given out by the Department of Agriculture. Previously, there had been documentation on the promised time intervals within which the DA would act on selected SPS requests for permits, accreditation, licenses and certificates, so this would be our fallback in case the team is not be able to come up with their new set of baseline indicators.

A new performance indicator was generated from raw sources. To show improved banking supervision over the past decade, lower and more uniform Nonperforming Loan (NPL) Ratios

were obtained from the published statements of condition of universal and commercial banks. This had to be done because variances of NPL Ratios are not being made available by the BSP for public use.

The Monitoring Manager also participated in meetings where projects either tried to wrap up or present findings. As she sat in meetings of the Bureau of Product Standards Portal project, she gathered materials that would show how much time it took to get import commodity clearances and product standards accreditations. As she sought to link up with the BPS team to later on gather the statistics that would measure the portal's impact, she tried to make use of the portal herself and as a researcher, made suggestions and comments to the portal team. While she listened to a number of presentations by the FinTax 2 study group led by Dr. Felipe Medalla, she made a parallel computation of revenue loss from FinTax 2 but for uniformity, will use the FinTax 2 team's figures in upcoming EMERGE reports. As she attended workshops with the Cooperative Development Authority, she gathered statistics while sharing with them the experience in reforming the banking sector, i.e, NPLs even went up and not down during the first few years of reform, before they were gradually cleared from banks' balance sheets. Today, the banking sector is strong and stable, but it took them a decade of reforms in corporate governance and supervision and regulation before such was achieved.

In June, a study on the status of the banking sector evolved from what started as routine monitoring of individual banks' nonperforming loan ratios. Data assembled from individual sources confirmed success in attaining policy objectives from initiatives in the banking and financial sector supported by USAID from 2003 to 2006. Along with a presentation of such findings, the attendant tradeoffs, and showing the logical next steps in the policy agenda in a draft, the usual monitoring of economic developments in areas covered by project objectives were completed during the quarter.

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.

The Public Information Manager accomplished the following tasks during the last quarter:

He wrote, edited, and finished the drafting of the following milestone success stories:

- EMERGE TA to Gawad Kalinga's e-tambayan project
- EMERGE TA on the iSchools program of the Department of Education
- EMERGE TA to the CDA's Alternative Dispute Resolution
- EMERGE's TA on the Bureau of Custom's voluntary disclosure program of BOC

He gathered pertinent information and attended events that will help him draft milestone stories on the Standards and Conformance portal of the Bureau of Product Standards and the Electronic Tax Compliance Verification Drive (eTCVD).

Ronald also attended/participated the following events during the quarter:

He joined Dr. Myrna Austria in Baguio City during the presentation of R.S. Bernaldo on EITI to LGUs in the Province of Benguet. Ronald interviewed LGU officials for the planned milestone story on EMERGE TA on the EITI framework.

He attended the launch of the S&C portal as requested by Dr. Myrna Austria. He took photographs during the event for inclusion in the milestone story being planned on this TA.

Ronald collated and edited the weekly highlights, weekly and monthly reports of all EMERGE consultants and team leaders for submission to USAID. He also monitored and clipped news items that are related to EMERGE TA activities.

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) Statement of Work: USAID/Philippines proposed a one-year extension of the EMERGE contract at a reduced funding level and requested the prime contractor (CARANA Corporation) to submit a technical proposal and budget for the extension period. The following page was added to the original EMERGE Statement of Work:

“The activities in the EMERGE Project follow-on will build on the successes achieved in various policy reform areas, and will provide the continuity that is necessary for the achievement of long-term positive impacts of the Mission's economic policy. The EMERGE Project follow-on focuses on technical assistance activities that will improve the investment climate and build trade capacity by implementing key reforms at the National Economic and Development Authority (NEDA), the Department of Finance (DOF) particularly the Bureau of Customs (BOC) and the Bureau of Internal Revenue (BIR), and the Department of Trade and Industry (DTI). The activities will consolidate some of the fiscal reforms put in place in the last 24 months, mostly through technical assistance to the BIR. Greater emphasis will be on trade facilitation and much of the work will follow through on the tentative reforms taking shape at the BOC.

The follow-on task will likely include work in the following general areas:

1. Fiscal sustainability: Identifying and recommending ways to plug specific tax leakages; improving tax administration; budget expenditure and transparency; and the privatization process.

2. Expand trade and investment: support to modernize and improve customs offices; support in lowering costs of engaging in, or eliminating obstacles to international trade

flows; preparation for, accession to and implementation of bilateral, regional and global trade agreements; export promotion; support for trade-related agricultural development; support for e-commerce development and information technologies to promote trade; support to establish and comply with environmental standards.

3. Governance, transparency and interagency coordination: mainstreaming support for trade and investment reforms and the legal and regulatory framework for foreign investment; support for enhanced intellectual property rights and commercialization of intellectual property assets developed in the Philippines; encouraging business support services for exporting and importing companies.

The EMERGE follow-on activities are expected to lead to a more competitive economy, higher levels of domestic and foreign investment, a stronger fiscal position, better performance at the BOC and BIR, more privatization transactions, and improved resources for, and management of, public and private infrastructure. Although reforms will target national policy, preference for implementation of pilot and site-specific activities will be in Mindanao and other less developed regions of the Philippines.”

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.