



## 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 30, 2005

### **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, 2005, was \$9,740,417.06.

**2) Expected Results:** Performance monitoring will be based on assessment of results obtained compared to those projected in the implementation work plans. The two stated EMERGE objectives, i.e., increase liberalization and increase competition, are outside the manageable control of the EMERGE contractor. These can only be produced by the people of the Philippines, including government entities and the private sector. Through EMERGE activities, however, the contractor can contribute significantly to understanding and appreciation by

stakeholders, policy makers and interested parties of the costs to the economy (e.g., employment and foreign exchange earnings foregone) from policies or practices that allow economic rents or of monopoly profits from cartel-like arrangements. Thus, performance criteria for annually-approved implementation work plans will concentrate on the effectiveness of the contractor in selecting, designing, implementing and disseminating work designed to increase policy maker, stakeholder and public awareness.

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

**3) (a) Current Core Activities:** The contract defines (in subsection 4.2.) the major task areas listed in paragraph 1) above. During this quarter, the contract, the technical proposal and the EMERGE 2005 Annual Work Plan described the following activities to be undertaken within each of the major task areas, in addition to remaining start-up and other administrative tasks.

#### **Start-up and Other Administrative Tasks**

At the beginning of this quarter the project had applied for the Mayor's Permit to Operate and was awaiting the release of this permit.

The supplier of the proposed MIS software for the project, Interlink, installed an evaluation copy of the system on EMERGE computers to determine if it would meet our requirements. The program was undergoing revisions to suit the needs of the users.

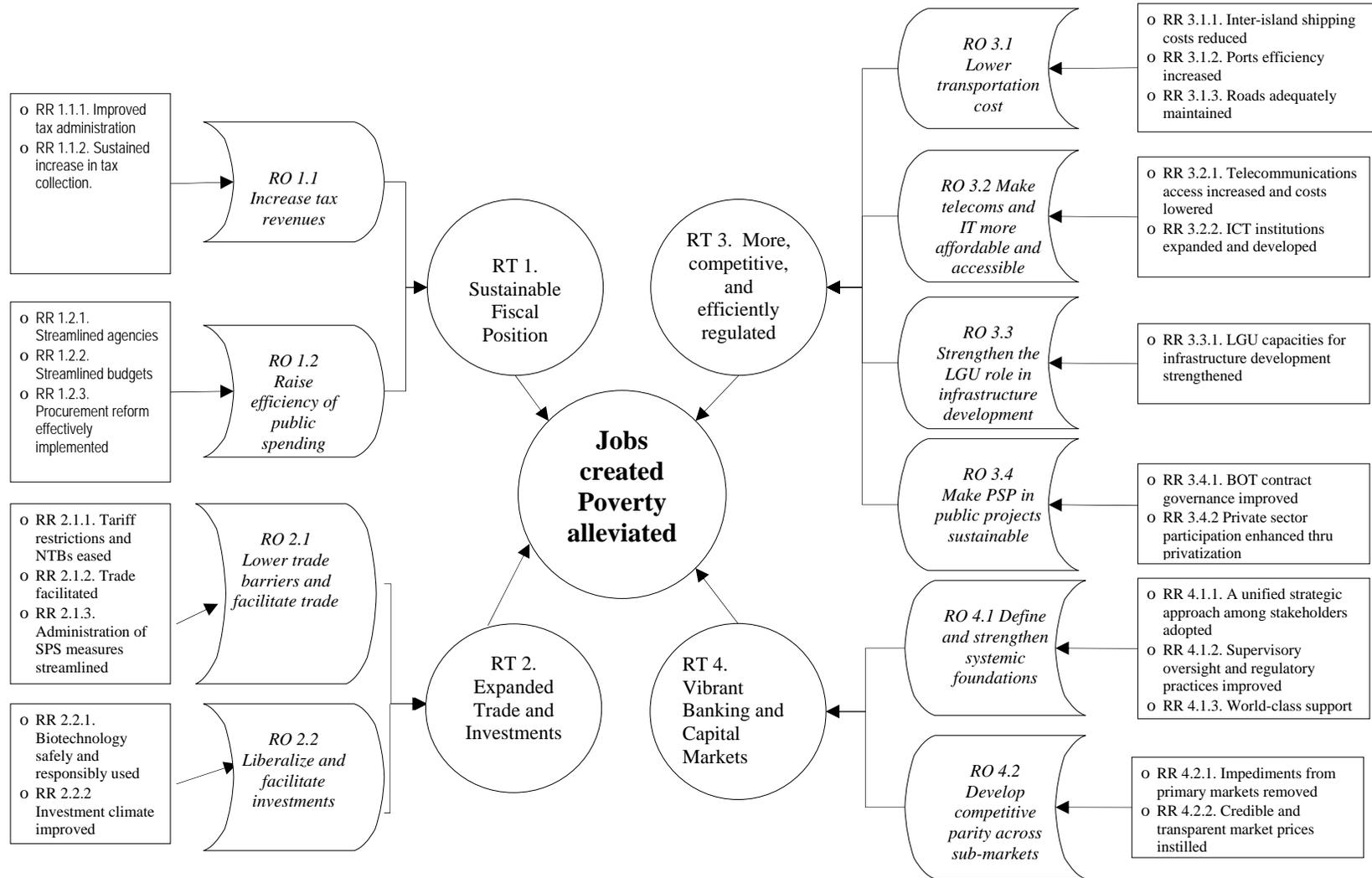
The EMERGE web site was being developed.

The Securities and Exchange Commission (SEC) had requested funding for the participation of Commissioner Jesus Enrique Martinez at the US SEC Annual Internal Institute for Securities Market Development from April 18 to 28 in Washington, DC, and the Industry Visitation Program from May 2 to 4, 2005. This was approved by USAID and EMERGE was working on the logistical requirements for this trip.

#### **TASK 1 - Policy Analysis and Technical Assistance (TA)**

The 2005 Work Plan identifies four major economic policy reform themes or purposes that contribute to the overall goals of more productive jobs created and poverty reduced: 1) a sustainable fiscal position, 2) expanded trade and investment, 3) more competitive and efficiently regulated infrastructure, and 4) vibrant banking and capital markets. It identifies ten EMERGE reform objectives to help the Government of the Republic of the Philippines (GRP) achieve these purposes, and 24 reform results to achieve the ten EMERGE reform objectives. Thirty-eight specific tasks are then proposed as EMERGE-supported activities to help the GRP and the Philippine civil society obtain most of those 24 results in 2005.

Figure1. EMERGE Results Framework 2004-2007



The EMERGE Results Framework is presented in Figure 1. The specific tasks proposed for EMERGE support in the 2005 Work Plan, and the reform objectives and results they target, are listed below, together with the progress expected during this reporting period as discussed in the previous quarterly report. We were not planning to work on all of these tasks during this reporting period, and those that are to be started later are noted in Section 4, Performance during the Quarter.

*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 (ONETT) System**

The EMERGE team planned to issue a purchase order to the most technically competent consultant team from among those invited by the Commissioner of Internal Revenue to propose how the ONETT system on real property can be improved. On behalf of the Bureau of Internal Revenue (BIR) and EMERGE, the Foundation for Revenue Enhancement (FReE) issued in February 2005 a request for proposal to five firms. Four firms indicated their intent to submit a bid. The BIR, EMERGE and FReE held two pre-bidding conferences at the BIR. During this April-June reporting period, the EMERGE expected to submit to USAID the terms of reference of the ONETT, select the competitive bidder, issue purchase order and start this activity.

**Task 1.1.1.2 Revenue effects and structuring of tax administration reform initiatives**

After securing the approval of USAID CTO to hire a Tax Economist, who will work closely with Commissioner Parayno in shepherding the tax administration reform program of the BIR, the EMERGE team hired Mr. Francis Vicente. Mr. Vicente will help the Commissioner prioritize and provide structure to the various reform initiatives for improving tax administration as found in the *BIR Blueprint for Development Towards 2010*. He will also estimate the revenue effects of proposed reforms. The consultant's engagement started on March 1, 2005, and is expected to end on December 31, 2005.

**Task 1.1.1.3 Improved administration systems of selected tax measures**

The EMERGE fiscal team had several meetings with the AIM-Hills Governance Center to discuss how to improve the collection of (a) the document stamp tax (DST) 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) common carrier tax that is collected from public land transportation companies. Both EMERGE and the Center have met with BIR Commissioner Parayno, with the Department of Transportation and Communications (DOTC), Assistant Secretary for LTO A. Lontoc, Land Transportation Franchise and Regulatory Board (LTFRB) Chairperson E. Bautista, and Insurance Commissioner B. Santos. This task aims to increase tax collection and facilitate procedures of the yearly registration of private vehicles at the LTO and public transportation companies at the LTFRB. The terms of reference (TOR) was to be drafted during the April-June 2005 quarter.

**Task 1.1.1.4 Tax rulings aligned to improve tax collection**

The EMERGE team received a request from Finance Undersecretary Emmanuel P. Bonoan to

help his office draft the implementing rules and regulations for the PAA and to review previous BIR tax rulings for consistency with the law. In the April-June quarter, the project planned to seek approval from USAID to respond to this technical assistance (TA) request.

*Reform Result 1.1.2. Sustained increase in tax collection*

**Task 1.1.2.1 Individual Performance Management System at the BIR Installed**

The EMERGE project mobilized the BIR Performance Management System (PMS) team in March 2005 to help the BIR develop a system to measure performance objectively. This is an important task in light of the enactment of the Performance Attrition Act (PAA) involving the BIR and the Bureau of Customs (BOC). The BIR PMS team was expected to commence work in April 2005 and to finish by the end of October 2005.

The EMERGE team was also asked to help the Department of Finance (DOF) improve its capability to set tax collection targets for 2006, in response to Finance Secretary Cesar V. Purisima's request. At the BIR, the EMERGE Fiscal Team Leader was to help the PMS work with the Large Taxpayer Service (LTS) to cascade its tax collection target of Php255 billion in 2005 to its sub-units.

*Reform Objective 1.2 Raise the efficiency of public spending*

*Reform Result 1.2.1. Streamlined agencies*

**Task 1.2.1.1 Selected Agencies' Re-structuring Plans Improved**

In the first quarter of 2005, the EMERGE team planned to execute a grant agreement with the Development Academy of the Philippines (DAP) to help the Department of Budget and Management (DBM) carry out this task, which was expected to last throughout the year 2005. However, it was put on hold pending the issuance of the Implementing Rules and Regulations (IRR) for Executive Order 366, requiring the agency restructuring plans. With the IRR issuance anticipated in May 2005, EMERGE expected to proceed with this task in the second quarter of 2005. Its initial phase was expected to last for 6 months.

*Reform Result 1.2.2. Streamlined budgets*

**Task 1.2.2.1 Capacity for the Implementation of the Organizational Performance Indicator Framework (OPIF) Upgraded**

The DBM would like EMERGE to conduct some training programs to help improve the appreciation, understanding and capability of Congressional staff (particularly those of the Congressional Planning and Budget Office, the Senate Economic Planning Office, the Appropriations Committee secretariat, and the Economic Affairs Committee) in the implementation of the OPIF. In the April-June quarter, the EMERGE team expected to finalize plans for this training program with Undersecretary Pascua.

**Task 1.2.2.2 Performance Assessment Rating Tool of the OMB/USG Adapted**

The Undersecretary also requested EMERGE to provide U.S. consultants 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 Departments. This task was to be acted upon in the first half of 2005, starting in the April-June quarter.

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

The EMERGE team hired Mr. Jem Armovit to 1) work on a model to predict cash inflows and 2) help draft the Fiscal Responsibility Bill (FRB) for DBM. The former is needed to allow DBM to issue notices of cash allotments quarterly instead of monthly. Mr. Armovit is assigned to draft the provisions in the FRB for a debt cap. Mr. Armovit's engagement started on March 16, 2005, and will end on September 15, 2005.

#### *Reform Result 1.2.3. Procurement reform implemented*

##### Task 1.2.3.1 Customized Agency Manuals and Generic Procurement Manuals Aligned

The World Bank is assisting DBM draft procurement manuals tailored for selected agencies. Undersecretary Pascua asked EMERGE to help it align the customized manuals with the standard procurement manual and the Government Procurement Reform Law. This work should start in the third quarter of this year, after the World Bank consultants complete their assignment.

#### *Reform Objective 2.1 Lower trade barriers and facilitate trade*

#### *Reform Result 2.1.2. Trade facilitated*

##### Task 2.1.2.1 Customs Audit Performance and Capability Assessment

The consultant team, composed of Alex Gatacales, Agaton Uvero and Bebe Madamba, started work on December 22, 2004, and completed it in February as planned. The team presented their final report at a USAID debriefing on March 30, having shared it and their recommendations earlier with the new Commissioner of Customs Bert Lina. Ramon Clarete reported on highlights of the report during a meeting with NEDA DG Secretary Neri and Department of Finance (DOF) Secretary Purisima on March 31. Commissioner Line asked EMERGE to help his office implement the recommendations. (Thus the performance milestones of this task should be achieved in the near future—that the counterpart agency accepts and implements at least some of the consultant's recommendations.)

##### Task 2.1.2.2 Customs Risk Management System Improved

The proposed TA to improve the risk management system at the BOC was discussed with Commissioner Bert Lina and his predecessor Commissioner George Jereos. Both expressed support and appreciation for the TA. Components of the TA include designing and establishing a risk management organization, enhancing the selectivity system, strengthening of the capability of the bureau's post-entry audit group (PEAG), and expanding and institutionalizing the Super Green Lane. A scope of work was prepared for each component and work was expected to begin in the April-June quarter.

#### *Reform Result 2.1.3. Administration of SPS measures streamlined*

##### Task 2.1.3.1 Department of Agriculture (DA)'s SPS Administration Systems Improved

The EMERGE team was to act on this task in the first quarter of 2005. The TA was requested by DA Undersecretary Serrano to streamline the administration of sanitary and phyto-sanitary (SPS) measures at the DA. The components of the TA include business process and institutional analysis and improvement, enabling by Department orders/circulars the proposed changes, and undertaking consultations and communication activities to build up ownership for the changes. A purchase order was prepared for Cesar Virata and Associates to implement the TA and was

submitted for USAID approval on March 2, 2005.

*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**

The TA to the Bureau of Food and Drugs (BFAD) and the Department of Agriculture (DA) started on December 22, 2004, and was completed as planned during the first quarter of 2005. With the TA, BFAD drafted its own guidelines on the labeling of GMO-containing processed food. The draft guidelines have been endorsed for the approval of the Executive Committee of the Department of Health. With stakeholders from the public and private sectors, the TA also helped the DA conduct a preliminary but comprehensive review of its field-testing protocols. Revisions were introduced, particularly on the technical feasibility of current conventions. (Thus the performance milestones of this task have been achieved—the acceptance and implementation of some of the recommendations of EMERGE consultants towards improving the commercialization guidelines for processed food derived from biotechnology and a more coherent policy framework for bio-safety assessments and field testing protocols.)

**Task 2.2.1.2 Improved Insect Resistance Management Strategy Adopted and Key Policy and Regulatory Gaps Addressed**

EMERGE received a request for a grant from the International Support for the Acquisition of Agri-biotechnology Association (ISAAA), which has an on-going program with the DA and BFAD. The request was for support in policy and regulatory development and institutional capacity building. A draft SOW and budget for a grant or a purchase order was prepared in the first quarter of 2005.

**Task 2.2.1.3 The Filipinos properly informed and educated about modern biotechnology**

EMERGE received a request for grant from the Biotechnology Coalition of the Philippines (BCP) to support information, education and communication (IEC) activities to improve public awareness, knowledge and appreciation of modern biotechnology. A draft SOW and budget for a grant or a purchase order was prepared in the first quarter of 2005.

*Reform Result 2.2.2 Investment climate improved*

**Task 2.2.2.1 Improving the Investment Climate**

On December 2, 2004, it was agreed with the Board of Investments (BOI) that a technical assessment of the investment climate should apply supply chain and transaction cost analyses, be results driven, and be conducted in real-time, as information may be discovered in tranches. The coconut industry was selected to be the first to undergo the diagnostic study, which was to be initiated in the first quarter of 2005. A draft TOR for the conduct of a diagnostic study on coconut-based products was prepared during that quarter in consultation with Johnny Endaya of the BOI and circulated for review and comment.

*Reform Result 2.2.3 Investment facilitated*

**Task 2.2.3.1 Strategic Development Initiatives**

By the end of March 2005 an EMERGE consultant, Dr. Victor S. Limlingan, was almost through with the first assignment under this task, assessing possible strategic development initiatives in the mining industry, infrastructure financing, agricultural research and reforestation, as well as on crafting a Muslim Management System based on "The Roots of Japanese Management," linking with academic institutions in Muslim Mindanao. This work was to be completed in April 2005.

*Reform Objective 3.1 Lower transportation cost*

*Reform Result 3.1.1 Inter-island shipping cost reduced*

**Task 3.1.1.1 The nautical highway developed and access to it institutionalized**

The National Economic Development Authority (NEDA) sought EMERGE assistance in supporting the Road-RORO Terminal System (RRTS). A SOW to help reduce shipping costs was drafted with the following components:

- Draft bill (on the RORO Law) that would institutionalize the reform objectives of the President's Executive Order 170 in January 2003;
- Draft Executive Order for the conversion of private non-commercial ports into commercial ports under the Road-RORO Terminal System (RRTS); and
- Review and drafting of Philippine Ports Authority (PPA) Administrative Order (AO) re: guidelines on the development, construction and operation of private ports under the RRTS.

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

EMERGE expects to start work on this task in the 3<sup>rd</sup> quarter of 2005, since current DBP priority is on the promotion of the RRTS (Task 3.1.1.3).

**Task 3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project**

Proposed TA to the Development Bank of the Philippines (DBP) can be provided in two broad areas: (a) provision of information to various stakeholders, e.g., local government units, private investors, and other sectors about the advantages of Roll-on Roll-off (RORO) shipping, the need for inter-LGU cooperation, the need to build capacity among provincial planners to deal with RORO shipping, the risks and constraints faced by private investors in RORO shipping, the need to dovetail government efforts to promote RORO shipping with the emerging interest of the private sector to professionalize logistics management, among others; and (b) introduction of various policy and institutional reforms to support the development of the Road-RORO Terminal System (RRTS) and RORO shipping. A SOW on RORO shipping was being drafted in coordination with DBP.

*Reform Result 3.1.3 Roads adequately maintained*

**Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation**

The Road Board directors approved a draft SOW for TA. The executive director of the Road Board secretariat sent a letter of request to EMERGE. EMERGE finished negotiations with the proposed consultant firm, C. Virata and Associates, and submitted it to USAID for approval on April 5, 2005.

*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**

Draft rules on voice over Internet protocol (VoIP) as a value added service were finalized with assistance from EMERGE. The NTC issued its draft rules for VoIP in a press conference held last Wednesday, March 20, 2005. Under the draft rules, VoIP is classified as a value-added service, paving the way for increased competition in the telecommunications sector. A public hearing on the draft rules was scheduled for May 3, 2005.

**Task 3.2.1.2 Competition policy for ICT sector formulated and implemented**

The National Telecommunications Commission (NTC) requested TA to develop a competition policy framework for the telecommunications sector. NTC is convinced that a competition policy framework will enable it to make the market more contestable and to ensure that no firm would exercise market power to the prejudice of consumer welfare. A TOR for the TA was drafted.

*Reform Result 3.2.2. ICT institutions expanded and developed*

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

The EMERGE Privatization Advisor, Dr. Jaime Faustino, conducted research and interviews regarding Voice over Internet Protocol (VoIP) and submitted a draft report to his government counterpart, NEDA, for review and comment. In addition, the consultant drafted a recommended strategy entitled, “*Congressional Initiative in Linking the Global Filipino Family*,” to increase and promote the use of VoIP in the regions. This work was to be completed in the next quarter. EMERGE has also had some discussions with CICT on the possibility of using PhilPost for VoIP and other services and to provide some technical advice on how to set up community e-centers.

*Reform Objective 3.3 Strengthen the LGU Role in Infrastructure Development*

*Reform Result 3.3.1 LGU capacities for infrastructure development strengthened*

**Task 3.3.1.1 Identification of barriers to LGU access to financing for local infrastructure**

Former DOF Secretary Amatong expressed the need to assist the Municipal Finance Corporation (MFC) in this area. It was decided to hold the proposed TA in abeyance pending the designation of the president of the Corporation.

*Reform Objective 3.4 Make Private Sector Participation (PSP) in Public Projects Sustainable*

*Reform Result 3.4.1 BOT Contract Governance Improved*

**Task 3.4.1.1 Options developed to improve build-operate-transfer (BOT) contract governance**

The Board of Investments (BOI) requested TA to help draft amendments to the Build-Operate-Transfer (BOT) Law, after a public hearing on the IRR amendments called attention to the need to amend the law itself to take care of issues that could not be addressed by mere amendment of the IRR. The proposed TA on BOT Law amendments was to be pursued in the second quarter of 2005, after the amended IRR was finalized. There was an agreement among BOI, EMERGE and the Angelo King Institute (AKI)/PhilExport Policy Advocacy for Competitiveness and Trade (PACT) to conduct workshops and roundtable discussions with, among others, the BOI-BOT committee, EMERGE/PACT consultants, the PCCI and the American Chamber of Commerce to identify provisions of the BOT Law that need to be amended. PACT was to spearhead the organization of the roundtable discussion. The workshops were to be conducted in the April-June 2005 quarter.

*Reform Result 3.4.2 Private sector participation enhanced thru privatization*

**Task 3.4.2.1 Privatization of state-owned enterprises**

NEDA Director General (DG)/Social Welfare Secretary Neri requested TA on how to proceed with several potential privatization activities, and EMERGE planned to respond in the April-June 2005 quarter.

*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 4.1.1.1 Technical Assessment of saving patterns and behavior**

This assessment was identified as a priority task by the Capital Market Development Council (CMDC). In order to derive full benefits from the policy and legislative implications of its findings, it was expected that this study would be completed no later than the 2<sup>nd</sup> quarter of 2005. However, USAID/OEDG suggested that this task be held in abeyance until further review. The Bangko Sentral ng Pilipinas (BSP) is requesting TA on consumer saving/finance issues, which may be incorporated into this task, subject to concurrence of USAID.

**Task 4.1.1.2 Defining the Philippine Capital Market Reform Agenda**

BSP Governor Rafael Buenaventura sent a letter to EMERGE requesting TA for this task and a separate letter was sent by the Executive Director of the Bankers Association of the Philippines concurring with the draft SOW. EMERGE expected to start this task in May 2005.

**Task 4.1.1.3 Policy Review of Financial Sector Taxation**

The CMDC (the main counterpart) selected the Zambrano & Gruba Law Office to undertake this policy review. EMERGE expected to start this task in May 2005.

*Reform Result 4.1.2 Supervisory oversight and regulatory practices improved*

**Task 4.1.2.1 Risk-Based Capital Framework for SEC-Covered Institutions/Agents**

This task is planned for Q3 of 2005. Inputs were requested from the counterpart (SEC), so that the SOW could be finalized by end-Q2.

#### Task 4.1.2.2 Financial Risk Management Framework for PDIC

This task is planned for the 2<sup>nd</sup> half of 2005. Discussions have been held with the Philippine Deposit Insurance Corporation (PDIC) on the preparation of a SOW and the sequencing of assistance.

#### Task 4.1.2.3 Upgraded Framework for PDIC Inspection

This task was added to the EMERGE 2005 Annual Work Plan in May 2005.

#### Task 4.1.2.4 Valuation and Risk Parameter Estimation for BSP

This task was added to the EMERGE 2005 Annual Work Plan in May 2005.

#### Task 4.1.2.5 TA to BSP on Inflation Targeting and Monetary Policy

This task was added to the EMERGE 2005 Annual Work Plan in May 2005.

### *Reform Result 4.1.3 World-class support infrastructure developed*

No tasks planned for 2005

### *Reform Objective 4.2 Develop competitive parity across sub-markets*

#### *Reform Result 4.2.1. Impediments from the primary markets removed*

##### Task 4.2.1.1 Technical Simulations & Assistance to Support the PERA Initiative

The counterpart (CMDC) has been constrained by the announcement of the DOF that they would not support the Personal Equity Retirement Account (PERA) initiative until the fiscal situation stabilizes. Given its natural link with the development of the capital market (task 4.1.1.2) and its tax framework (task 4.1.1.3), this task is expected to be mobilized by Q4 of 2005.

### *Reform Result 4.2.2. Credible and transparent market prices instilled*

##### Task 4.2.2.1 Assistance to the Philippine Dealing and Exchange Corporation

By the end of March 2005 EMERGE was preparing a TOR and the request for approval for the Public Market consultant for submission to USAID.

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

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

The Grants and Special Activities Fund (SAF) Manager joined EMERGE on February 18, 2005. She developed the draft guidelines for the EMERGE grants program which was submitted to the USAID CTO for the processing of a waiver and approval to allow EMERGE to award grants to the NGOs and non-governmental research institutions.

As of end of March, EMERGE had received requests for grants from the International Support for the Acquisition of Agri-Biotechnology Association (ISAAA), Biotechnology Coalition of the Philippines (BCP), and from PACT for TA on a reforestation strategy and cost sharing on meetings with PCCI. Due to the delay in obtaining a USAID waiver to issue grants and the immediate need to start implementation of the biotech activities in the grant requests of ISAAA and BCP, EMERGE decided to issue Purchase Orders instead of grants for these two activities, the documentation for which should be completed during the April-June quarter.

### **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.

The TIERG Policy Advisor Committee (PAC), in its first meeting on November 27, 2004, chaired by Socio-Economic Secretary and NEDA Director General Romulo L. Neri, suggested and approved three areas for EMERGE assistance that did not appear in the 2004 work plan but supported its overall objectives: mining, land reclamation, and reforestation. The consultants for mining and land reclamation started work in early 2005. EMERGE worked with Chairman Victor Corpus of the Natural Resource Development Council (NRDC) to determine what TA could be helpful in the proposed reforestation program.

### **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, we are 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.

**Draft and establish a TIERG performance monitoring plan (PMP):** The SO2 monitoring and evaluation (M&E) manager drafted, sent and discussed the contents of a PMP template to his M&E counterparts at EPRA, PACT and ROLE to begin the task of drafting the TIERG PMP. He also

drafted the EMERGE project-level indicator data sheets and discussed their contents with the EMERGE team leaders. He was then to draft the EMERGE PMP for discussion with the rest of the EMERGE team.

**Create a database of SO2 indicators:** The SO2 M&E manager developed a database for the old and new SO2 performance indicators. He also began developing an inventory of GOP research portals maintaining economic indicators related to the USAID SO2 indicators.

**Review and present amendments to the SO2 SOW templates:** The SO2 monitoring manager began reviewing the EMERGE SOW templates to study the possibility of incorporating therein performance indicators, performance targets and causality statements. It was meant to assist future management and evaluation exercises in understanding the value that individual activities and contracts add to the achievement of results.

### **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 was to set up a website to inform the reform community and the general public about project goals and activities and current reform issues.

During the first quarter of 2005, the Public Information Manager coordinated with the DLSU consortium regarding its planned seminar on advocacy for their member organizations.

He also coordinated with the IT manager regarding the production and design of the EMERGE website. The content of the website was completed. The design and other technical specifications were to be ironed out by the IT manager before uploading onto the web.

The Public Information Manager also completed the content and design of the EMERGE Brochure. The technical specifications for printing the brochure were also finished. The brochure was routed to EMERGE management for comments before seeking USAID approval and final printing.

**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:** The Peoples Group (TPG) entered into a subcontract with the CARANA Corporation, the prime contractor for this SEGIR/Privatization delivery order, as contemplated in the Technical Proposal. The EMERGE Grants and SAF Manager is to be an employee of TPG, beginning July 1, 2005.

#### **4) Performance during the Quarter:**

##### **Administrative Tasks**

The project conducted the 2nd TIERG Policy Advisory Committee (PAC) meeting on May 14. The EMERGE 2005 Annual Work Plan was reviewed and subsequently approved by the PAC members.

As of the end of June the project was still awaiting the release of the business permit from the Makati mayor's office. The delay was caused by the office lessor's failure to secure his own permit to rent the office before EMERGE submitted its application, but this is being corrected.

Logistical arrangements were completed for the trip of SEC Commissioner Jesus Enrique Martinez to the US to participate in the US SEC Annual International Institute for Securities Market Development Forum, and the trip was reportedly very successful.

The MIS software Interlink I-write was purchased by the project and installed on the newly delivered server. This is workflow software that runs on top of Lotus Domino/Notes, which is used for the project's email system. Further revision is being made to adjust its flow on the new system environment. Data build-up will be made afterwards.

USAID approved the local procurement of the project vehicle and IT equipment during this period. The project purchased a 2005 Ford Explorer-Eddie Bauer Edition for its official service vehicle. The server for the Management Information, Email and Web Homepage Systems, several desktop computers for the support and technical staff and notebook computers for the team leaders were purchased. All this equipment was configured and software installed. Printers and an LCD multi-media projector were likewise acquired.

The official project website was finalized and is expected to be activated during the next quarter. EMERGE registered a domain name for its use and email addresses have been assigned to project personnel.

##### **TASK 1 - Policy Analysis and Technical Assistance**

###### **Task 1.1.1.1 Improved One Time Tax Transactions (ONETTT) System**

On 22 April 2005, three firms (E-Konek, Fujitsu, Phil. Inc., and Punongbayan and Araullo) submitted their technical and financial proposals on how the ONETTT system on real property can be improved. These proposals were evaluated by the Foundation for Revenue Enhancement (FReE) and the EMERGE team on behalf of the BIR in May, and the purchase order (PO) was awarded to E-Konek, Phil., on June 1. E-Konek, Phil. mobilized its team and submitted its work plan. Work on this activity is expected to be completed in November 2005. By the end of the next quarter, the firm should have accomplished over half of the activities in its work plan.

#### Task 1.1.1.2 Revenue effects and structuring of tax administration reform initiatives

Francis Vicente, upon the request of Commissioner Guillermo Parayno, developed two proposals for possible technical assistance at the BIR. The first one refers to the enhancement of the eSales system (which is a tool that the BIR uses to monitor transactions from cash register machines and point of sales machines) and the Mobile Revenue Officer System (MROS) to better enable them to detect taxpayer compliance. The TA will help the BIR (i) assess the current infrastructure of the integrated system of CRM/POS in terms of data traffic bottlenecks, (ii) evaluate the mobile platform of the Mobile Revenue Officers System (MROS) for integration of CRM/POS; and (iii) analyze and gather pertinent data from eSales submissions as inputs for the development of a Data Analysis Program. Faculty members from the Department of Industrial Engineering of the College of Engineering of the De La Salle University (DLSU) have expressed their interest and availability to work on the project.

The second one refers to a review of the existing system whereby accredited agent banks (AABs) are authorized to receive tax payments on behalf of the BIR in exchange for being allowed to hold the payments for a fixed period of time (i.e., float) prior to remitting the tax payments to the Bureau of Treasury (BTr). The purpose of TA is to study the feasibility of outsourcing “collection agent-banks” business to a limited number of banks in a more arms-length manner (i.e., services in exchange for a fee).

In this quarter, the consultant not only gathered relevant data but also thought through the methodology for estimating tax leakages. The consultant's work to generate estimates of tax collection shortfalls is most advanced in the case of the capital gains tax, but secondary data on tax collection of excise and value-added taxes were also gathered. In the case of the former, collections from capital gains tax should be compared with actual real estate transactions to get the difference between statutory and effective capital gains tax rates. Although a methodology to set up indicators on actual real estate transactions has been found, it relies on benchmark data which is not available in any government office. By the end of next quarter, the results of these efforts, including a similar exercise on VAT and Excise Taxes, shall be available as a report.

#### Task 1.1.1.3 Improved administration systems of selected tax measures

In the last quarter, it was reported that the terms of reference (TOR) was to be drafted during the April-June 2005 quarter based on a request of the Center for a grant from the EMERGE project. The AIM-Hills Governance Center had not yet submitted a proposal for a grant in this quarter. This delay worked out just fine, since the EMERGE contractor has yet to secure approval from USAID to issue grants. Next quarter, the EMERGE team will resume work in this area. Anticipating the approval of grant authority and the submission from the Center of its proposal, EMERGE plans to submit a proposed TOR and budget for this grant to USAID for approval.

#### Task 1.1.1.4 Tax rulings aligned to improve tax collection

In this quarter the fiscal team discussed with DOF Undersecretary Bonoan the design of this activity, finalized the TOR, and forwarded it to USAID for approval. As designed, the activity entails the services of a senior legal consultant, who will be tasked by DOF to review the draft corrective tax rulings that the Secretary of Finance will issue. Prepared by the National Tax Research Center, the DOF tax rulings are to rescind a few legally inconsistent BIR tax rulings or

improve the legal consistency of other BIR rulings. It also involves the assistance for training and dissemination activities for the improved framework and procedures on the issuance of BIR tax rulings. Next quarter, the EMERGE expects to secure the approval of USAID to hire a senior legal consultant and implement this activity.

#### Task 1.1.2.1 Individual Performance Management System (PMS) at the BIR Installed

The BIR PMS team officially came on board April 18, 2005. It set up an office, which is provided by the Commissioner, on the ninth floor of the BIR building. The work involves four components, namely: target and performance measures setting; PMS information system (a computer based monitoring of performance data); rewards allocation system; and performance measurement at the Service level. The BIR PMS team has already conducted a number of focus group discussions and one-on-one coaching sessions with the staff and heads of the different divisions of the Large Taxpayer Service (LTS) with regards to their key result areas (KRAs), performance measures and weights to be assigned to each KRAs. The team has also started to develop the performance management information system and the rewards framework. Given the paucity of data that will allow the BIR to systematically allocate the financial targets of the LTS down to the individual level, it was agreed to introduce the “shared financial goal” concept in the PMS. This is in response to Secretary Purisima’s instruction to come up with a way to cascade the PMS from the LTS unit as a whole down to its sub-units/individuals. “Shared financial goal” essentially means that every unit/ individual in the LTS are jointly responsible for the attainment of the office’s financial target. It also means that performance rating of each unit/ individual will partly be determined by whether or not the LTS achieves its financial target at the office level. The work of the BIR PMS team at the LTS is on-track and is expected to be completed by the end of October 2005.

The EMERGE Fiscal Sustainability Team Leader, Dr. Chat Manasan, has been monitoring the PMS Team’s work closely, helping out where she can. She also offered to help the BIR Domestic Finance Group determine how best to set its tax collection targets for 2006, as requested by Secretary Purisima, but they felt they could do well enough by themselves.

A related activity, which DOF Undersecretary Noel P. Bonoan requested from EMERGE this quarter, is being implemented by EMERGE consultant Atty. Venir Cuyco. The activity aims to help Undersecretary Bonoan and an inter-agency committee draft the implementing rules and regulations (IRR) for the Performance Attrition Act. By the end of June, the committee had completed its work with the assistance of Atty. Cuyco, who revised several drafts of the rules and regulations during the course of the inter-agency committee meetings. Early next quarter, Usec. Bonoan will send the completed draft IRR to the Congressional Oversight Committee, which must approve it. The EMERGE team might request USAID approval of a short extension of Atty. Cuyco contract, in anticipation of comments on the draft by the Congressional Oversight Committee. By the end of the next quarter, the EMERGE should have completed its assistance in this area.

#### Task 1.2.1.1 Selected Agencies’ Re-structuring Plans Improved

An initial draft of the TOR for this TA was developed in April. The TA calls for the hiring of experts who will develop sector/sub-sector profiles and review the department restructuring plans that various government agencies will submit to the Department of Budget and

Management (DBM) pursuant to the IRR for Executive Order (EO) 366 (on government restructuring), which was officially issued and published on May 20, 2005. Its issuance triggered the implementation of the EO, for which DBM Undersecretary Pascua had requested EMERGE TA. The TOR was revised after further discussions with officials of the DBM, the Civil Service Commission (CSC) and DOF in May and was subsequently approved by Undersecretary Laura Pascua. DBM was unable to secure partial funding for the needed TA from other donors, so the scope of EMERGE assistance was broadened to include the services of 22 sector/sub-sector experts (one for each of the major departments/agencies in the restructuring program), 2 financial experts and 2 organizational experts to help put together the parameters for the review of the restructuring plans of the monitored government owned and controlled corporations (GOCCs). Discussions with the Development Academy of the Philippines (DAP), which was selected to help the DBM implement this TA, have begun. Work on this task is now expected to commence in the third quarter of 2005.

#### Task 1.2.2.1 Capacity for the Implementation of the Organizational Performance Indicator Framework (OPIF) Upgraded

Work on this TA is held back pending further discussions with Undersecretary Laura Pascua.

#### Task 1.2.2.2 Performance Assessment Rating Tool of the OMB/USG Adapted

The TOR for this TA, which will provide DBM with U.S. consultants to help assess the applicability to the Philippines of the Performance Assessment and Review Tool (PART), which is currently used by the U.S. Office of Management and Budget (OMB) to assess the performance of departments, was drafted in April. However, the engagement of the consultants has been postponed to early 2006 at the request of Undersecretary Laura Pascua, because the DBM staff is presently busy with 2006 budget preparation and the government restructuring program.

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

Jem Armovit, the consultant engaged by EMERGE to help DDM in this task, produced a draft report on the behavior of internal revenues in May. This report serves as partial input to the work on development of a cash flow forecasting model. This report will help DBM staff to better understand the monthly trend in tax payments and the risks involved in meeting the monthly targets.

Mr. Armovit is also tasked to help the DBM draft the Fiscal Responsibility Bill (FRB). In April he provided background information and analysis, on the appropriateness of instituting a debt cap, to the core group tasked with the drafting of the FRB. He recommended the use of a methodology to compute the debt cap based on the IMF fiscal stress test model of debt sustainability. This proposal was adopted by the group and was written into the working draft of the FRB that was subsequently submitted to the Senate Finance Committee chaired by Senator Manuel Villar. Further discussions of the core group resulted in a recalculation of the debt cap provision by the consultant in June and this has been inserted into subsequent revisions of the FRB.

#### Task 1.2.3.1 Customized Agency Manuals and Generic Procurement Manuals Aligned

The TOR for the alignment of the agency-specific procurement manuals, developed under World Bank assistance, with the standard procurement manual was drafted and approved by

Undersecretary Laura Pascua in April. It was approved by the USAID in June and the consultant, Joel Syquia, is expected to start work on this task in July.

A related EMERGE activity proceeds from a request of Justice Agnes Devanadera, the Government Corporate Counsel, for assistance in the training on the Government Procurement Reform Act of the legal staffs of the Office of the Government Corporate Counsel (OGCC) and of the government owned and controlled corporations (GOCCs). The EMERGE team drafted a TOR for this training activity that includes an overview of the public procurement law and its IRR; general and specific conditions of the procurement contract; and audit red flags. The training design incorporates the recently issued second edition of the Philippine Bidding Document (PBD). There will be three two-day training events. A team of four trainers was assembled for this activity, and the first event will start on July 14, 2005, assuming USAID approval.

#### Task 2.1.2.1 Customs Audit Performance and Capability Assessment

This task was completed in the first quarter of 2005. The recommendations of the consultant team have been accepted by the Commissioner of Customs and their implementation will be incorporated under the EMERGE technical assistance on customs risk management (see Task 2.1.2.2).

#### Task 2.1.2.2 Customs Risk Management System Improved

The TOR for the Center for Economic Policy Research (CEPR) to implement the TA to improve the risk management capability of the Bureau of Customs (BOC) was approved by the USAID on June 7. The TA is composed of three modules: (i) liquidation and billing module; (ii) risk management organization module; and (iii) post entry audit group institutional module. The consultant team started work the last week of June. The TA is expected to be completed in October 2005.

Ramon discussed with Deputy Commissioner Alex Arevalo a potential overlap of EMERGE TA and that of the EU at the BOC. The two agreed that EMERGE will not take up the improvement of the Bureau's selectivity system, which will be covered instead by the EU TA on risk management, which starts in December 2005.

#### Task 2.1.3.1 Department of Agriculture (DA) SPS Administration Systems Improved

Much of the work this quarter on this TA activity to the DA was spent revising the SOW and budget based on comments from USAID after the TOR was first submitted for approval in March. The revised TOR and budget were re-submitted to USAID for approval on June 30. Cesar Virata and Associates, Inc., (CVAI) was proposed as the vendor for the first PO of this TA. The consultant team is expected to commence work next month.

Ramon met separately with Dir. Layese of the Bureau of Agriculture and Fisheries Product Standards (BAFPS) and Ms. Ching Baltazar of the Bureau of Fisheries and Aquatic Resources (BFAR) to discuss what the World Bank and the EU are planning to do in SPS for BAFPS and BFAR, respectively. He learned that the EMERGE SPS project is complementary to that of the World Bank and similar to that of the EU; and hence some coordination of work among the parties involved will be necessary.

#### 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 in the first quarter of 2005. The draft Bureau of Food and Drugs (BFAD) Guidelines on the labeling of processed foods containing GMOs is at the Office of the Secretary of Health, who will approve the guidelines. The recommendations on field testing protocols are being considered for adoption by the Bureau of Plant Industry (BPI). To wit, for first generation transgenic crops, the environmental safety assessment during the field trials comes before the food/feed safety assessment, while for nutraceuticals (enhanced crops such as Vitamin A enriched rice), the recommendation was for both environmental and food safety assessment to be done during field trials phase of biosafety assessment. Decision on the recommendations may be expected next quarter.

#### Task 2.2.1.2 Improved Insect Resistance Management Strategy Adopted and Key Policy and Regulatory Gaps Addressed

A PO for the International Support for the Acquisition of Agri-biotechnology Association (ISAAA) to implement the TA to the DA and the Bureau of Food and Drugs (BFAD) to strengthen the government's regulatory framework on biotechnology was approved by the USAID on May 17. The TA is expected to be completed in May 2006. Accomplishments to date by the ISAAA consultant team include: (i) discussion with the DA Insect Resistance Management (IRM) Team and technology developers at the Bureau of Plant Industry (BPI) on the template to be used for the acceptability survey that will be conducted preliminary to the pilot-testing of the proposed IRM strategies for Bt corn in the country; (ii) assistance to the DA in collating comments from stakeholders on the monitoring and reporting template that will be used for the implementation of the IRM strategy for Bt corn; (iii) assistance to the DA IRM team in finalizing the monitoring and reporting template and the survey instruments that will be used for the acceptability survey of the different IRM modalities being contemplated for the Philippine case. The survey will be conducted on 18-27 July 2005 in 7 regions across the country.

#### Task 2.2.1.3 The Filipinos properly informed and educated about modern biotechnology

A PO for the Biotechnology of the Philippines (BCP) to implement the TA to the DA and the Bureau of Food and Drugs (BFAD) to strengthen the government's mechanism for effective and efficient regulation of biotechnology was approved by USAID on May 31. The TA is composed of institutional capacity building and an IEC campaign. It is expected to be completed in May 2006. Accomplishments to date by the BCP consultant team include the conduct of the several seminars and roundtable discussions: (i) a biosafety seminar for municipal and provincial agricultural officers of Region XI, held in Davao City on June 13-14; (ii) a roundtable discussion on modern biotech for selected Luzon-based mayors, particularly those with jurisdiction over corn farm areas still planted to non-GM corn varieties, held in Quezon City on 15 June; (iii) a health and medical biotech seminar for the Philippine Federation of Private Medical Practitioners (PFPMP) on June 2 (A resolution is currently being worked out with PFPMP whereby the federation will endorse modern biotechnology in the Philippines for national development goals, particularly in the health sector.); (iv) a seminar on the socio-economics of modern biotechnology for indigenous people NGOs held in Davao City on June 23; (v) a seminar on the safety and benefits of agri-biotech for the academic community based in Mindanao held in

Davao City on 24 June; and (vi) a seminar on modern biotechnology for Region V farmers, LGU extension workers and officials held in Talisay, Camarines Norte, on 27-28 June.

A major accomplishment of this TA was the signing on June 16 by President Arroyo of Presidential Proclamation No. 861, declaring the first week of July 2005 as “National Biotech Week.” The consultant team was involved in the preparatory activities for the celebration of National Biotech Week, July 1-7.

#### Task 2.2.2.1 Improving the Investment Climate

The TOR for the proposed TA to BOI to conduct a diagnostic study on the coconut industry was submitted to USAID for approval on May 6. The objective of the TA is to improve the investment climate in the coconut-based industries, producing non-traditional coconut products, by using value chain analysis to identify bottlenecks, policies, infrastructure deficiencies and other constraints to competitive, profitable production of such products. This will support BOI’s effort to re-engineer itself from an agency promoting investments with fiscal incentives to one focused on improving the investment climate and reducing transaction costs of investors. EMERGE briefed the USAID on the proposed TA on June 24.

BOI Governor Consuelo Perez and DTI Assistant Secretary for Regional Operations Carissa Cruz have requested EMERGE TA to help improve the investment climate in the ICT-based services sector. An initial meeting with the EMERGE team was held in May. The TOR for this activity will be prepared next quarter.

#### Task 2.2.3.1 Strategic Development Initiatives

There are two TA activities under this task. The first one was on exploring alternative mechanisms for financing infrastructure investments, management systems of business that are adapted to Filipino society, and the development of innovative anti-poverty networks. This task was completed in April and the consultant, Prof. Victor S. Limlingan, presented his final report. Prepared as a conceptual paper for NEDA Director General Romulo L. Neri, the paper presents a strategic assessment of 1) the need for a "business model" for all economic undertakings of government, 2) the need to confront the issue of corruption in projects and privatization programs of the government, and 3) the alternative of a market-based approach, i.e., public listing to eliminate corruption. Based on this strategic assessment, the paper proposes several strategic development initiatives in the reforestation program, infrastructure financing, the agricultural research program, networking with academic institutions in Muslim Mindanao, corruption prevention initiatives, and revival of the mining industry. The paper also presents a research approach to crafting a Muslim Management System based on "The Roots of Japanese Management" and on linking with academic institutions in Muslim Mindanao.

The second activity is on-going and is on exploring the feasibility of establishing an effective mechanism to use instruments such as tax declarations to establish ownership rights to real properties, in the absence of formal land titling, and to see if it would be feasible to use these as collateral to secure bank lending productive purposes in the rural areas. During this quarter, the consultant, Mr. Calixto Chikiamco, explored the feasibility of setting up a government guarantee corporation for such a mechanism. Concerns from bankers, such as the President of the Land

Bank of the Philippines, were raised against the proposal. The consultant is now exploring other mechanisms, including the acceleration of land titling.

#### Task 3.1.1.1 The nautical highway developed and access to it institutionalized

Mr. Henry Basilio and Ms. Jennifer Llarena were hired to undertake the tasks enumerated in the SOW for this TA. Ports team leader Henry Basilio was appointed by Sec. Neri as private sector representative to the NEDA RDC and was invited as resource person on RoRo. The team helped draft an Executive Order “Encouraging Private Port Operators to Convert their Operation Into Commercial Port Operation In Order To Expand The Country’s Road-Roro Terminal System (RRTS) Network,” which has been endorsed by the Cabinet to the President for signing.

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

EMERGE expects to start work on this task in the 3<sup>rd</sup> quarter of 2005, since current DBP priority is on the promotion of the RRTS (Task 3.1.1.3).

#### Task 3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project

A SOW was drafted concerning TA on the preparation of an investment folio covering the Road RoRo Terminal System (RRTS) connections on the nautical highway. It is under review by DBP and EMERGE (including Paul Kent of Nathan Associates Inc.). However, it was put on hold pending the return of Mar Encio, who was in the U.S. during the whole month of June.

#### Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

EMERGE drafted a SOW for the TA sought by the Road Board and it was approved by USAID. A purchase order was awarded on May 3, 2005, to C Virata and Associates, Inc. The delivery date is August 8, 2005.

#### Task 3.2.1.1 Laws and regulations supportive of ICT sector development drafted and e-Government strategy developed

The National Telecommunications Commission (NTC) issued a draft circular declaring Voice over Internet Protocol (VoIP) as value-added service, based in part on EMERGE TA. A public hearing was conducted in May to solicit comments from stakeholders. The final rules are expected to be issued in July 2005.

#### Task 3.2.1.2 Competition policy for ICT sector formulated and implemented

A competition policy team (composed of two expats and three local consultants) was organized by EMERGE to assist NTC in the formulation of a competition policy framework for the information and communications technology (ICT) sector. The team made two presentations: (1) findings (from the meetings and interviews) and (2) their own views of competition policy, to the Commission on ICT (CICT) and NTC, respectively. The team has started to draft a “Consultative Document on Competition Policy for the ICT Sector,” and during the next quarter it will help the NTC prepare for its “Conference the Future of Competition in the Information and Communications Technology Sector;” tentatively scheduled for October/November 2005.

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

A short-term contract with Dr. Jaime Faustino came to an end in May 2005 and his draft report on VOIP was submitted to NEDA for review and comment. The report reviews the impact of

ICT on growth and development. It examines the “killer” application called VOIP and the legal and regulatory issues raised in various countries. It reviews the current situation in telecommunications in the Philippines and notes the lack of competition in key markets. The paper argues that clearer regulation on VOIP would foster competition and, in turn, create growth, investment and employment. It agrees with the policy approach of the National Telecommunications Commission, defining VOIP as a “value-added” service. While that process is underway, there are issues such as interconnection and access charges, which will have to be addressed in the medium-term to promote competition. Other models to promote competition such as Community e-Centers are also being developed. The report includes a recommended strategy entitled, “Congressional Initiative in Linking the Global Filipino Family” to increase and promote the use of VOIP in the regions. (This is not, however, a 3-year strategy and work plan as called for in the EMERGE 2005 Annual Work Plan, as NEDA asked the consultant to focus on more immediate steps to achieve these goals.) The government counterpart, NEDA, accepted much of the consultant’s advice on VOIP. The NEDA Director General was one of the most vocal and public advocates. See for example the article, “NEDA back calls via Internet,” *BusinessWorld*, February 23, 2005. Cabinet presentations on VOIP and its benefits were integrated into the Philippine Medium Term Development Plan. Thus the performance milestone for this activity has been achieved.

EMERGE consultant Atty. Jose Gerardo “Gigo” Alampay drafted a proposal for the USAID/Washington-funded Last Mile Initiative, which seeks to develop community e-centers. Initial feedback is that this proposal will be approved.

#### Task 3.3.1.1 Identification of barriers to LGU access to financing for local infrastructure

DOF Undersecretary Roberto Tan sent EMERGE a request for TA in developing guidelines for program lending to local government units (LGUs). EMERGE held initial discussions with the executive director of the Municipal Development Fund Office. A TOR for this activity will be prepared and submitted for USAID approval in the next quarter.

#### Task 3.4.1.1 Options developed to improve build-operate-transfer (BOT) contract governance

EMERGE developed a draft TOR at the request of Board of Investments (BOI) Governor Perez to help them identify and draft amendments to the BOT Law. EMERGE sent the draft TOR to Nathan Associates for review and recommendation of an expatriate consultant with experience in BOT implementation. Mr. Rean C. Botha was recommended and accepted by BOI/BOT. This activity should get underway in the next quarter. Governor Perez wants it to wait until the amended IRR has been signed and disseminated, and this has been delayed due to changes in leadership. EPRA plans to help the BOI conduct workshops to disseminate the amended IRR, and PACT has agreed to help BOI consult with the business sector about proposed amendments to the BOT law itself.

#### Task 3.4.2.1 Privatization of state-owned enterprises

EMERGE included TA to assist with the privatization of certain government assets (Laoag City International Airport, Lipa City Fernando Air Base, Batangas City Port, TRANSCO, PhilPost and PAGCOR) in its 2005 Annual Work Plan, responding to a request by the DOF Privatization Office. EMERGE drafted and finalized a TOR to help structure a privatization program for the

government, which was approved by USAID on June 20, 2005. Two expat privatization experts, Thom Flohr and Bernard Carmody, arrived on June 27 to begin work on this task.

#### Task 4.1.1.1 Technical Assessment of saving patterns and behavior

A draft Scope of Work (SOW) for this task has been sent to the Capital Market Development Council for their comments and further inputs.

#### Task 4.1.1.2 Defining the Philippine Capital Market Reform Agenda

This task was approved at the end of May and the consultant began his work on June 1. The Bankers Association of the Philippines (BAP), one of the main counterparts for this task, suggested that the workshop initially scheduled for end-June be held in August instead to allow the new members of the Monetary Board to settle in before undertaking this important activity.

#### Task 4.1.1.3 Policy Review of Financial Sector Taxation

The Zambrano & Gruba Law Office began their work on this task on the first week of June. The initial findings of the consultants are expected to be ready about middle of September at which time a workshop will be held among market participants to disseminate the findings and gather their comments.

#### Task 4.1.2.1 Risk-Based Capital Framework for SEC-Covered Institutions/Agents

Director Jose Aquino of the Securities and Exchange Commission (SEC) promised to finalize the initial draft SOW for this task. As of last follow up (July 22), the draft was being prepared by the Market Regulations Department of SEC for transmittal to EMERGE within a few days.

#### Task 4.1.2.2 Financial Risk Management Framework for PDIC

The initial SOW drafted by the Philippine Deposit Insurance Corporation (PDIC) has been discussed thoroughly with the Banking & Capital Market team leader and SO2 Monitoring Manager of EMERGE. An agreement was reached to prepare a further draft that would streamline the technical request, focusing on the need for PDIC to develop a risk management framework that is consistent with international best practices and to provide for capacity building for the same.

#### Task 4.1.2.3 Upgraded Framework for PDIC Inspection

As per agreement with the PDIC, this task would be designed and finalized when task 4.1.2.2 was at its late stages of completion.

#### Task 4.1.2.4 Valuation and Risk Parameter Estimation for BSP

Nathan Associates conducted a search for a qualified consultant and has identified Mr. Mark Bates for this engagement. BSP Deputy Gov. Espenilla has indicated his concurrence to engage Mr. Bates and a SOW will be drafted for Mr. Bates to make an initial short trip towards the end of August to have an initial review of the situation, and to prepare an inception report from which a full SOW can be drafted.

#### Task 4.1.2.5 A TA to BSP on Inflation Targeting and Monetary Policy

Fr. Paul McNelis has been identified as the consultant with the concurrence of BSP Deputy Gov. Guinigundo. Fr. McNelis is to come to Manila on a short 1-week trip from July 23 to 30 to discuss with the BSP the status and further needs of the BSP general equilibrium model to

provide output gap analysis for inflation targeting of monetary policy.

#### Task 4.2.1.1 Technical Simulations & Assistance to Support the PERA Initiative

After lengthy discussions within EMERGE and with EPRA and PACT, it has been agreed that EPRA would take this topic and all related tasks and activities. This is consistent with the concern that PERA would require substantial legislative work for which EMERGE is not properly mandated.

#### Task 4.2.2.1 Assistance to the Philippine Dealing and Exchange Corporation (PDEX)

The first phase of the task began in late May when the consultant from ISC Inc, Ms. Valerie McFarlane, conducted an on-site review of the market situation and the workflow arrangements envisioned by PDEX for the proposed Public Market trading structure. An inception report was prepared and circulated. The task will enter its 2<sup>nd</sup> phase next quarter as the consultant will return in July to continue the work on the public market, which is expected to be launched by October 2005.

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

The grants mechanism manual for EMERGE was submitted for USAID approval along with a request for a waiver to award grants under the contracts. It was discovered later that the SEGIR IQC, from which the EMERGE delivery order was issued, does not provide the authority to award grants in their respective contracts. As a result, USAID/W will have to amend it before the waiver can be granted. We were informed that the amendment process was in fact underway, but by the end of this quarter it had not yet been completed.

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

During this quarter alone, a total of \$810,316 of SAF was committed to fund the various activities for the four major components of the EMERGE Delivery Order.

#### *On Fiscal Sustainability:*

ONET<sup>3</sup>. Competitive bidding for the development of the One Time Tax Transaction (ONET<sup>3</sup>) software was headed by the Foundation for Revenue Enhancement (FReE), per a Memorandum Agreement signed between EMERGE and FReE. From among three vendors who submitted and made a presentation of their bids, E-KONEK Pilipinas was chosen and was awarded the PO. E-KONEK started work the 1<sup>st</sup> week of June. It has submitted its work plan and inception report.

DBM Restructuring. At the end of this quarter the TOR for the DBM restructuring TA was under review. The implementation of this TA will be sole sourced to the Development Academy of the Philippines (DAP) using a PO under the Simplified Acquisition Threshold (SAT).

#### *On Infrastructure:*

The TOR for the Road User Fund Study was approved, and the PO was finalized and issued to CVAI. Work started on the study in May.

*On Banking and Capital Markets:*

Public Market Consultant. A PO was issued to the International Securities Consultants, Ltd. (ISC) on May 25 to develop a conceptual design of the public market for the fixed income exchange (the Philippine Dealing and Exchange Corporation (PDEx). An inception report was submitted in June.

Financial Taxation. The Zambrano and Gruba Law Offices was issued a PO on June 6 to conduct a study on financial taxation.

*On Trade and Investment*

WTO e-learning. The WTO TOR is about TA to the DTI mainly, and secondarily to the various government agencies to provide training to some 350 participants from the executive, legislative and judicial branches of various agencies, plus some 50 participants from the civil society, on international trade negotiation skills. The training will be in the form of on-line courses to be provided by the Earth Council Foundation (ECF). After discussions within the EMERGE team and some research on the best contract type to use, it was decided that a fixed price subcontract of not more than \$250,000 will be used to engage ECF. The package containing the approval request, TOR, a sole source justification for ECF, and a draft subcontract was sent to USAID for approval on June 10. Negotiations will be made with ECF upon receipt of USAID approval.

Biotechnology. By way of assisting the DA, BFAD and BPI, EMERGE issued POs to the Biotechnology Coalition of the Philippines (BCP) and the International Service Acquisition of Agri-biotech Applications (ISAAA) on June 1 and May 19, respectively, to implement advocacy activities for biotechnology and to review existing and formulate, as necessary, drafts on biotechnology regulations. The respective work plans of the two organizations were technically accepted by EMERGE in June. The BCP started conducting its IEC activities in the same month.

Customs Risk Management. The Center for Economic Policy Research (CEPR) was issued a PO on June 20 to implement the activities of the TOR for the Customs Risk Management TA.

SPS Regulation Streamlining. A third revision of the TOR was sent to USAID for approval on June 30. A PO will be issued to C Virata and Associates Inc. (CVAI) to undertake these activities.

*Other SAF-funded activities*

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

During the quarter, the following additional requests for funding assistance were approved by USAID and charged to the SAF:

1. Logistics cost of conducting the East Asian Seminar on June 22-26
2. Logistics cost of conducting the International Food Exhibition on May 11-12.

3. Share in the cost of holding the Cebu ICT Conference on June 22-24
4. Cost of airfare of speakers and share in the logistics costs of holding the International Franchising Conference to be held on July 14-17.
5. Cost of a facilitator and share in the logistics cost of the DOF workshop for developing the DOF legislative agenda and action plan to be held on July 7-8.

#### SAF Activity: Mining

In this quarter, the EMERGE Mining Team assisted NEDA Director-General Neri in exploring alternative options to speed up the privatization of a few mines, now under the control of the Privatization Management Office of the Department of Finance, including the option of transferring the control of these mines to the government's Natural Resources Mining Development Corporation (NRDC). Changes in the leadership of the NRDC derailed the privatization effort through NRDC. The team has also assisted the Secretary identify the remaining impediments to mining investments, including conflicting provisions of local and national government regulations that are relevant to mining, social concerns about mining activities such as their impact on local communities and indigenous people, and developments of small mining activities, particularly in Diwalwal Gold mines. Mr. Rody Cruz visited small and medium mining sites in the provinces of Samar, Bulacan, Quezon and Negros Occidental, gathering information about how these activities have been affected by recent policy developments and on the potential contribution of mining to accomplishing the key development objectives of the Medium Term Philippine Development Plan. The team is expected to complete its work next quarter.

The EMERGE team has also been working, in collaboration with DeLa Salle University's PACT project team, on structuring a series of assistance activities aimed at improving the social acceptability of mining activities. Dr. Myrna Austria met with PACT and Vic Luna of the Gateways Management and Development Systems Co. to discuss the request of NEDA DG Neri for TA for the advocacy for a socially acceptable mining and mineral-based industry and the overall concept of such a project. The strategy in a nutshell rests on the principle of ensuring "balanced" gains between mining firms, the local communities, and the Filipino economy in general from mining. That is, the promotion of mining has to be accompanied by activities aimed at generating value-added to it, including employment in downstream industries, effective environmental protection programs of mining firms, or an appropriate rental value of the extracted minerals, which should accrue to the country in general and the local communities in particular. The TA will be implemented by PACT with a grant from the EMERGE project. The SOW will be drafted and presented to USAID for approval in the next quarter.

#### SAF Activity: Land Reclamation

During this quarter Atty. Dacayo gathered and reported the essential data on the status of the Catabalogan Reclamation Project, the Laguna de Bay Polder Island Development Project, and the Cebu Reclamation Project. His weekly reports highlighted the investment opportunities as well as the impediments that investors and the Philippine Government may have to consider. He also completed a more in-depth review of the policies, laws, rules and regulations governing reclamation and is now drafting a report on them. The purpose is to determine if any legal

impediments or needful improvements still exist and, if so, to suggest possible solutions or changes. He monitored the Cebu-Talisay boundary dispute, which is adversely affecting the development and use of the Cebu reclaimed land. This dispute has become a personal struggle between Cebu and Talisay officials, but seems to be nearing resolution. The NEDA Director General requested briefing papers on several other pressing issues, such as but not limited to the proposed Unified ID System and the proposed distribution of uplands to the landless poor, which were also done during this reporting period.

#### SAF Activity: Re-forestation/Agroforestry

A TOR has been drafted for an activity that will provide TA to Central Mindanao, by way of piloting the implementation and institutionalization of the GRP Puno ng Buhay Reforestation Program. While the activity is in the PACT work plan, EMERGE assistance will provide training to the different stakeholders in implementing the activity. A purchase order will be issued to SAMASA, part of the PACT consortium, to implement the training activities, which are expected to benefit about 100 farmer families in Maguindanao. The budget for the TOR was being reviewed as of end of June.

#### **TASK 4 - SO2 Monitoring, Assessment, Reporting**

**Draft and establish a TIERG performance monitoring plan (PMP).** The SO2 monitoring manager updated the draft EMERGE performance indicator data sheets based on the TIERG PAC meeting documents. He also started working on the corresponding baseline data. While doing this, the SO2 monitoring manager proceeded to discuss his proposed changes on the EMERGE results framework with the EMERGE team leaders. As a result of these initial meetings he recognized the need to draft and distribute an expanded list of performance indicators to the EMERGE team leaders to incorporate the proposed changes in the results framework. Consultation meetings on this expanded list of indicators are on-going.

**Create a database of SO2 indicators.** The SO2 monitoring manager maintained the SO2 performance indicator database. He also built the EMERGE project-level indicator database. He is preparing a database template that would house the EPRA and PACT project-level indicators when they become available. The idea is to create a consolidated database of SO and project level indicators.

**Review and present amendments to the SO2 SOW templates.** The SO2 monitoring manager distributed his proposed amendments to the SO2 task-SOW template. He is awaiting feedback on these proposed amendments. He also studied the possibility of amending the workflow in the EMERGE project to give him an opportunity to comment on the task-SOWs being drafted. This is to give him ample chance to study whether the deliverables expected from the tasks are consistent with the project's results framework and to find out how the tasks' results would relate to changes in the said indicators.

## **TASK 5 - Public Information and Consultations**

The Public Information Manager assisted the EMERGE team gather information materials for a PowerPoint presentation for NEDA. The presentation materials showed the various tasks and activities underway and planned by the EMERGE project for the Project's GRP counterparts. He provided the IT manager updates and photos taken during the recent PAC meeting and other editorial items for the EMERGE website.

At a meeting with the DLSU consortia he suggested an advocacy framework that includes media, policy-makers, end-users in support of NTC's move to make VOIP a value-added service. Prepared a draft media campaign plan for VOIP that outlines the various options of pro-VOIP groups in dealing with Philippine media; possible story angles; possible partners in the campaign; and proposed roll-out schedule of the campaign.

He participated in a meeting of the Banking and Capital Markets Team Leader with the Capital Market Development Council regarding EMERGE TA to the capital markets industry and gave some suggestions on advocacy activities in conjunction with the TA.

He discussed possible EMERGE assistance to the Ateneo consortia in its advocacy initiatives in media relations and packaging information materials.

He participated in a meeting with the Philippine Stock Exchange (PSE), which is requesting TA on the creation of an e-learning module to support the PSE public awareness drive on investing in the stock market and suggested that the issue of Internet absorption in the country should be addressed before designing an e-learning platform for PSE.

USAID has not yet approved on the EMERGE brochure design due to internal confusion on branding guidelines.

**5) Statement of Work:** No change in the contract statement of work was made during this quarter.

### **B. Administrative Information**

Since the Project Contract is a performance based, rather than a level-of-effort based, contract, administrative information is not required or reported.

**Section II - PROJECT OFFICER'S COMMENTS**

**Project Officer/Office Symbol** \_\_\_\_\_ **DATE:** \_\_\_\_\_

**Section III - CONTRACT OFFICER'S COMMENTS**

**Contract Officer/Office Symbol** \_\_\_\_\_ **DATE:** \_\_\_\_\_



**USAID**  
FROM THE AMERICAN PEOPLE



## MEMORANDUM

**DATE:** July 30, 2005

**TO:** Ms. Maria Teresa Robielos, EMERGE CTO, USAID/OEDG

**FROM:** C. Stuart Callison, Chief of Party, EMERGE Project

**REF:** Contract # AFP-I-00-00-03-00020 Delivery Order 800

**SUBJECT:** EMERGE Project Quarterly Report – April 1 to June 30, 2005

Attached for your review is the complete EMERGE Project's 3<sup>rd</sup> Quarterly Report, including the quarterly expenditure report, covering the period April 1 to June 30, 2005, in compliance with Section 7.1.3 of the referenced contract.

A hard copy will be delivered on Monday for your files.

Atch: a/s