



QUARTERLY PERFORMANCE REPORT

Contractor: CARANA Corp./Nathan Associates Inc.

Contract # AFP-I-00-00-03-00020 Delivery Order 800

Reporting Period: April 1 to June 30, 2006

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, 2006, was \$6,258,938.

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

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

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

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

Administrative Tasks

During the first quarter of 2006 EMERGE was to submit the quarterly report for the preceding quarter by April 30. It was to support another Policy Advisory Committee (PAC) meeting as the committee's secretariat. It needed to complete the recruitment process for a new SO2 Monitoring Manager and obtain USAID/RCO approval for the new staff member. With the resignation of the Banking and Capital Markets team leader effective April 7, EMERGE was also expected to find a replacement for him.

TASK 1 - Policy Analysis and Technical Assistance (TA)

The 2006 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 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. Twenty-five specific new tasks are then proposed as EMERGE-supported activities, along with a continuation and completion of 27 tasks started in 2005, to help the GRP and the Philippine civil society obtain those results in 2006.

The EMERGE Results Framework is presented in Figure 1. The specific tasks proposed for EMERGE support in the 2006 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.

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

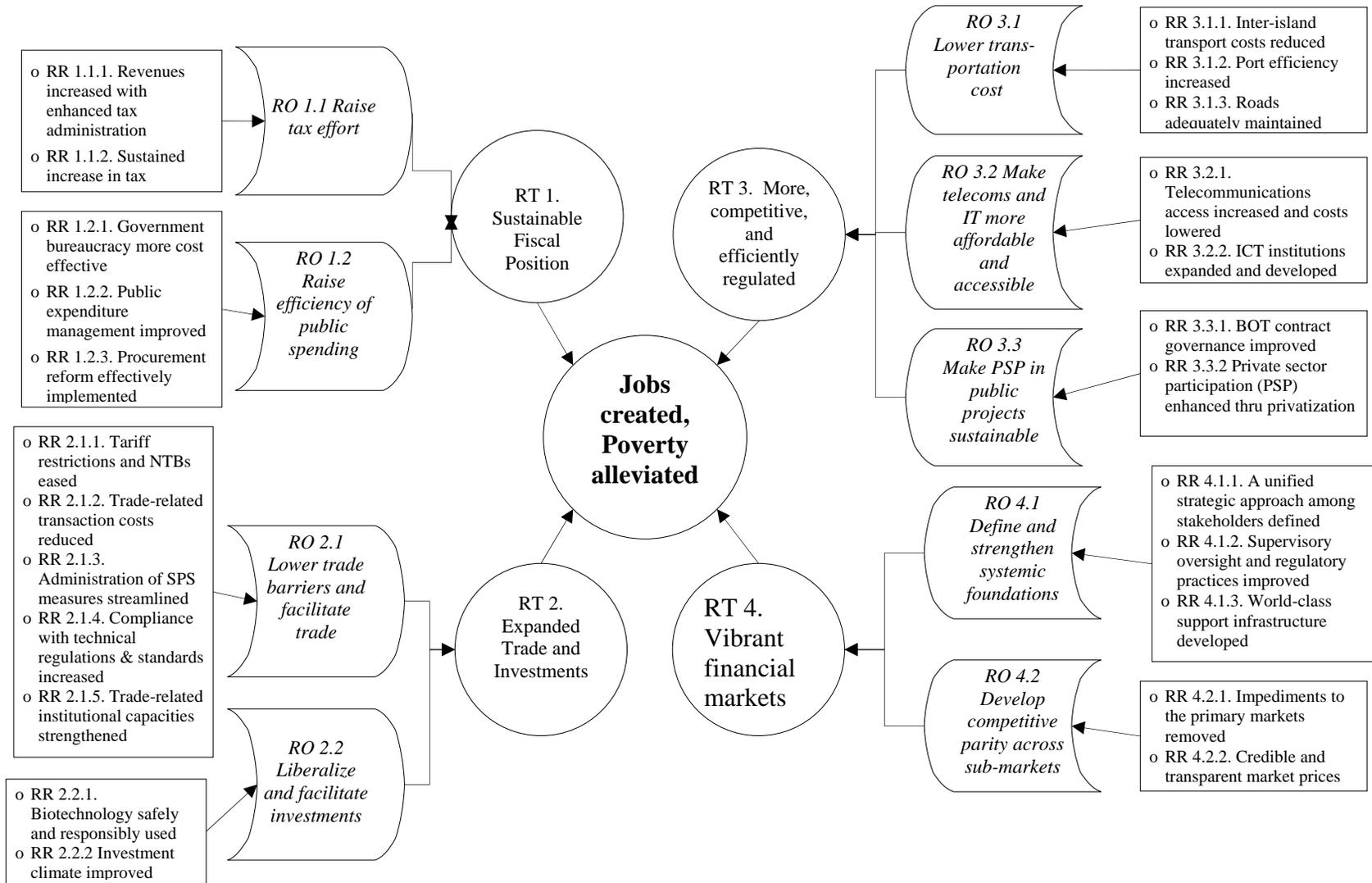


Table 1. EMERGE 2006 Technical Assistance Tasks

Reform Theme (RT)	Reform Objectives (RO)	Reform Results (RR)	Technical Assistance Tasks (Continuing tasks are in shaded cells.)	
RT 1. Manageable Fiscal Deficit	1.1 Raise the tax effort.	RR 1.1.1. Revenues increased with enhanced tax administration.	1.1.1.1 Enhancing the BIR's One Time Tax Transactions (ONETTT) System	
			1.1.1.3 Improving the administration systems of selected tax measures	
			1.1.1.4 Aligning tax rulings with tax code, laws and regulations and streamlining the tax rulings process at the BIR	
			1.1.1.5 Establishing integrated systems of motor vehicle registration, land public transport franchising, insurance and taxation	
			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 Installing Office-Level Performance Management System (PMS) at the BIR Regional Offices	
	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 (EMERGE will develop other tasks with the Commissioner of Customs in pursuit of this reform result)	
		RR 2.1.3 Administration of SPS measures streamlined	2.1.3.1 Improvement of the Department of Agriculture's SPS administration systems	
		RR 2.1.4 Compliance with product technical regulations & standards increased and cost of compliance reduced	2.1.4.1 Development and establishment of a standards and conformance (S&C) portal	
		RR 2.1.5 Trade-related institutional capacities strengthened	2.1.5.1 Philippine global trade e-learning program	
	RO 2.2 Liberalize and facilitate investments	RR 2.2.1 Agriculture biotechnology safely and responsibly used		2.2.1.2 Formulation of Insect Resistance Management (IRM) Strategy and development of regulatory protocols
				2.2.1.3 Institutional capacity building and information, education and communication (IEC) campaign on modern biotechnology
				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
				2.2.2.1 Diagnostic assessment of investment climate in priority sectors
		RR 2.2.2. Investment climate improved		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 Manpower and remuneration assessment in the mining industry and improving transparency in payments and utilization of mining taxes	

RT 3. More, Competitive and Efficiently Regulated Infrastructure	RO 3.1 Lower transportation cost	RR 3.1.1. Inter-island shipping cost reduced	3.1.1.2 DBP lending policies and guidelines on private sector access to infrastructure funds streamlined
			3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project (Eastern and Palawan nautical highways)
		RR 3.1.2. Port efficiency Increased	The task under this RR is integrated with Task 3.1.1.1
	RO 3.2. Make telecommunications and information technology more affordable and accessible	RR 3.2.1. Telecommunications access increased and costs lowered	3.2.1.1 Laws and regulations supportive of ICT sector development drafted (spectrum management policy, rules and regulations)
			3.2.1.2b Building capacity in NTC to implement competition policy in the ICT sector
		RR 3.2.2. ICT institutions expanded and developed	3.2.2.1c A strategy and plan to expand the use of VOIP and Internet technology in the regions developed (Last Mile Initiative)
			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	3.3.2.1 Formulation of strategies for the privatization of state-owned enterprises
	RT 4. Vibrant Financial Markets	RO 4.1 Define and strengthen systemic foundations	RR 4.1.1. A unified strategic approach among stakeholders defined
			4.1.1.2(b)(c) Defining the Philippine Capital Market Reform Agenda
			4.1.1.3(b) Undertaking a policy review of financial sector taxation
			4.1.2.1 TA to the Financial Sector Forum (FSF) to harmonize the supervisory framework of the financial market
			4.1.2.2 TA to the Securities and Exchange Commission (SEC) to enhance the regulation of the securities market
			4.1.2.3 TA to the Philippine Deposit Insurance Corporation (PDIC) to develop its risk management and regulatory capacities
			4.1.2.4 TA to the Bangko Sentral ng Pilipinas Supervision and Examination Sector (BSP-SES) to develop and strengthen the financial governance of the banking sector
			4.1.2.5 TA to the BSP Department of Economic Research (BSP-DER) on inflation targeting and monetary policy
			4.1.2.6 TA to the Insurance Commission (IC) to improve its regulatory and operational efficiency
			4.1.2.7 TA to the Department of Finance to enhance its capital market initiatives and its oversight over GOCCs and GFIs
		RR 4.1.3 World-class support infrastructure developed	4.1.3.1 Defining the Standards and Infrastructure for Cash & Retail Payments
RO 4.2 Develop competitive parity across sub-markets		RR 4.2.1. Impediments to the primary markets removed	4.2.1.1 TA to develop local government unit (LGU) financing (formerly Task 3.3.1.1)
			4.2.1.2 TA to develop the rural and micro finance markets
	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	

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

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

At the end of the last quarter the third prototype of the ONETTT application was nearing completion. The last two weeks of March saw several meetings to finalize roll-out procedures. Acceptance Testing was to be performed by two teams, namely, by the Technical Team of the Quality Assurance (QA) Department and by the Functional Team. The application is to be piloted in RDO 039. Demonstration of the final ONETTT application was scheduled for April 5, 2006.

Task 1.1.1.2 Revenue effects and structuring of tax administration reform initiatives

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

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

- 1) a web-based One Time Tax Transaction (ONETTT) system that taxpayers can use when paying for the capital gains tax when they sell real properties,*
- 2) the enhancement of the eSales system and the Mobile Revenue Officer System (MROS) to better enable them to detect taxpayer compliance, which is about to be implemented,*
- 3) how to improve the collection of (a) the document stamp tax on mandatory third party liability insurance, which vehicle owners must purchase each year when they register their vehicles with the Land Transportation Office (LTO), and (b) the common carrier tax that is collected from public land transportation companies, and*
- 4) improving the collection of excise taxes on cigarettes.*

Task 1.1.1.3 Improved administration systems of selected tax measures

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

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

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

Department of Finance (DOF) Undersecretary Emmanuel P. Bonoan requested EMERGE TA to help his office review previous BIR tax rulings for consistency with the law. USAID approved this TA in July 2005. However, Usec Bonoan put this activity on hold following the resignations in July 2005 of former DOF Secretary Cesar Purisima and BIR Commissioner Guillermo

Parayno. He told Ramon that out of the 4,000 tax rulings that were reviewed with USAID TA under a previous project, about 33 are slated to be rescinded and the BIR is asked to comment on a few hundred more that may also be rescinded. At the end of last quarter the implementation of this task was awaiting the return of Assistant Commissioner James Roldan of the BIR Legal Service from the US. The matter was to be discussed with him when he returned in April.

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

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

USAID approved the TOR for this task on March 20, 2006, and EMERGE executed a fixed obligation grant to the Asian Institute of Management (AIM) to implement it.

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

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

After a series of meetings EMERGE prepared a draft scope of work (SOW) for this task and submitted it to BIR HREA Elvie Vera for review. It was expected to be finalized this quarter.

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

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

A draft TOR was discussed in a meeting on March 22 with Deputy Commissioner Lilia Guillermo and Vicky de Leon of BIR-ISOG, representatives from BIR-ROG, Dr. Caslon Chua and Dennis Beng-Hui of DLSU, and EMERGE. EMERGE incorporated their suggestions and comments in another draft of the TOR and sent it back for further review and approval. The TA was expected to start the third week of May, assuming USAID approval.

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

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

On March 8 two firms made formal presentations before the selection committee consisting of BIR and EMERGE representatives, and the SGV Company ranked first in the technical evaluation. EMERGE then proceeded to review the financial aspects of the SGV proposal and to negotiate a purchase order for the task. Implementation was expected to begin this quarter.

Reform Result 1.1.2. Sustained increase in tax collection

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

This task was completed in November 2005.

Performance Milestone Achieved: BIR accepted and is implementing the individual performance management, rating and incentive allocation system (PMS), designed by EMERGE consultants for the LTS, starting in 2005. Individual PMS reflects performance more closely than the usual Civil Service Commission (CSC) Personnel Evaluation System (PES). BIR will write to CSC Chairman David to formally adopt PMS as its personnel evaluation system. PMS sets office and individual financial and non-financial performance targets, evaluates actual against performance contractual obligations, and rates the performance.

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

This task was completed in June 2005.

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

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

The TOR for the “first wave” of this task was sent to USAID on March 9, and approved on March 20. It was projected to be completed before the end of June 2006. The consultants, many of whom are the same individuals who worked on the PMS of LTS, held their first organizational meeting on March 29 in the office provided them by the BIR on the 9th floor of the BIR building.

Reform Objective 1.2 Raise the efficiency of public spending

Reform Result 1.2.1. Government bureaucracy more cost effective

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

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

By the end of the last quarter, the Development Academy of the Philippines (DAP) has submitted nine sector profiles to DBM and EMERGE, which were awaiting the submission of about 13 more sector profiles, while 29 government agencies had submitted their rationalization plans to DBM.

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

The DBM completed the draft of its first budget strategy paper (BSP) and wishes to acquire more training to improve their capability in this area. Undersecretary Pascua re-affirmed DBM's request for EMERGE TA to train the Fiscal Planning Bureau staff on the component sections of the BSP.

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.

Undersecretary Laura Pascua 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. The TOR for this TA was drafted in April 2005, but it was postponed to early 2006 at the request of Usec Pascua, because the DBM staff was busy with 2006 budget preparation and the government restructuring program. As of the end of last quarter EMERGE was updating the draft SOW for this undertaking.

Task 1.2.2.3 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.

Undersecretary Laura Pascua, who requested this activity, subsequently requested EMERGE to train selected staff of DBM on how to use the model. She explained that her main reason for asking EMERGE to help develop this capacity at DBM is so the DBM can reduce the risk of the government spending beyond its actual revenues. In 2002, the projections of DOF and 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 DBM's decision. It would be used to produce DBM inputs into an inter-agency cash programming exercise. Usec Pascua has reiterated her request for the training, and further discussions were expected during this quarter.

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.*

Upon the urgent request of former DBM Secretary Romulo Neri, and based on the 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, EMERGE prepared an SOW for this task. Undersecretary Relampagos subsequently noted that the TA should help the DBM streamline the process of generating, processing, and releasing of information prior to public dissemination in general and publication in the website in particular. The website could be integral to promoting budget transparency and accountability; however, sans generation and

processing of quality budgetary data prior to publication, these goals could not be supported by the website. EMERGE agreed to revise the TOR accordingly.

Task 1.2.2.5 Improving the public expenditure management system

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

Reform Result 1.2.3. Procurement reform implemented

Task 1.2.3.1a Customized Agency Manuals and Generic Procurement Manuals Aligned

This task was completed in July 2005.

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

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

This task was completed in October 2005.

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

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 is in response 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 expected to prepare the TOR for the task this quarter.

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 new Commissioner of Customs, Bert Lina, who appreciated the report and asked EMERGE to help his office implement its recommendations. After the resignation of Lina, implementation of the recommendations was put on hold by former Acting Commissioner Arevalo. Current Commissioner Morales has been briefed about this work and has also requested EMERGE assistance to help implement its recommendations.

Task 2.1.2.2 Customs Risk Management System Improved

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

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

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

The TOR for this task was expected to be approved by USAID this quarter and the task was expected to be completed within six weeks after approval.

Task 2.1.2.4 (EMERGE will develop other tasks with the Commissioner of Customs in pursuit of this reform result)

During this quarter EMERGE was to continue discussions on the Bureau of Customs (BOC) TA needs to identify specific tasks and prepare a TOR for USAID approval.

Reform Result 2.1.3. Administration of SPS measures streamlined

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

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

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

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

DA Undersecretary Fred Serrano requested additional EMERGE TA (i) to prepare and implement a plan of action to institutionalize the two regulatory organizations, which is planned to take effect in 2008; and (ii) to streamline and harmonize SPS business procedures. This second phase of the TA is important to producing actual results on improved SPS administration. The TOR was to be completed early this next quarter.

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

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

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 portal is to be a web-based facility that will host the technical regulations and product standards of the Philippines and other WTO member countries to improve the access of Philippine exporters to the global market by increasing their compliance with these requirements. Similarly, by complying with Philippine standards and regulations, the country's importers will be assured entry for their imported products and thereby

reduce their business transaction costs. The implementation of the TA is planned for three phases: Phase 1- specification of the functional and system design of the S&C portal; Phase 2- development and establishment of the portal; Phase 3- institutional arrangements to sustain and enhance it. EMERGE drafted the TOR for Phase 1 and expected to send it to USAID for approval this quarter.

Reform Result 2.1.5. Trade-related institutional capacities strengthened

Task 2.1.5.1 Philippine global trade e-learning program

Performance Milestone Achieved: *Around 420 participants from the government sector, NGOs, and academe are currently enrolled in this program to learn about the WTO system.*

Activities planned for this quarter included: (i) continued implementation of the on-line courses; and (ii) final preparations for face-to-face workshops (i.e. speakers, facilitators, venue and 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. 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. However, during the first quarter of 2006 it was determined that it is not necessary for DOH to issue the guidelines, although it can do so as a Department Order. Instead, the BFAD director can issue them. As a result, the guidelines were expected to be approved and issued by the BFAD Director during this next quarter.

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 are now with the division chief in charge of policy at the (DOH). While there are no pending issues on the technical substance of the guidelines, the division chief wants further consultations on them. The Chamber of Food Manufacturers and DA Secretary Panganiban (in the first week of February) followed up with DOH Secretary Duque on the approval of the guidelines. The BFAD Director can also issue the guidelines on his own authority. Once approved by DOH and/or BFAD, the guidelines will lay down the commercialization and labeling guidelines for processed food derived from biotechnology.*

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.

The International Support for the Acquisition of Agri-biotechnology Association (ISAAA) worked with the BPI Biotech Core Team to draft the DA guidelines and protocols on field testing and commercial propagation of genetically modified (GM) crops. The final draft guidelines and protocols were presented to concerned stakeholders from the government and private sectors during the Workshop-Seminar on the Safe Field Testing of GM Crops held in Baguio City on March 27-29.

For this next quarter, the ISAAA was expected to continue work on the following: (i) finalizing the draft guidelines and protocols on field testing based on the results of the Baguio workshop and endorsing them to the DA Secretary for issuance; and (ii) drafting the BFAD guidelines on standards identity preservation, including those for export certification. These two deliverables would complete the EMERGE PO with ISAAA, which was expected to end in May 2006.

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

Performance Milestones Achieved: A major accomplishment so far 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,” and the consultant team helped the DA prepare for and conduct it. Highlights of the week-long celebration include the following:

- (i) the signing of a Memorandum of Agreement between the then DA Secretary Arthur Yap and Mayor Ramon Guico, President of the League of Municipalities of the Philippines, for both institutions to support a joint program of capacity building and outreach on modern biotechnology applications at the LGU level;*
- (ii) an exhibit of commercial biotech products already in the country;*
- (iii) a “biotech shopping” seminar to showcase 10 select biotech technologies that was attended by more than 300 participants;*
- (iv) the launching of the Agricultural Biotech Center at the Philippine Rice Research Institute by virtue of Administrative Order No.21 series of 2005 signed by former Secretary Yap;*
- (v) a farmer-to-farmer exchange program held at a Bt-corn field in Pangasinan, in which close to 50 non-Bt corn farmer leaders participated;*
- (vi) a scientific symposium on modern biotechnology for the academe and scientific community; and*
- (vii) a biosafety and applied seminar on DNA forensics attended by about 80 participants from different affiliated government agencies.*

The following table summarizes BCP’s IEC and institutional capacity building activities accomplished by the end of the last quarter.

**Summary of Institutional Capacity Building and IEC Activities
May 2005 - March 2006**

Type of Activities	Trainings/Workshops/Seminars	Date	Duration (hours)	Place & Venue	Participants	
					Number	Classification/Type
Institutional Capacity Building	Training-Workshop on Local & International Updates of Agricultural Biotechnology Policy and Regulations	21 to 23 September 2005	19	Kaliraya, Laguna	60	Training/WS for STRP & Biotech Teams
	Forum on Biotech Policy and Regulations Harmonization Across Government Agencies in Celebration of the 2005 National Biotech Week	04 July 2005	9	BSWM-DA	325	Guidelines & Protocol Development
	Technical Presentation on the National IRM Acceptability Survey	16 August 2005	5	NAFC, DA	43	Guidelines & Protocol Development
	Post-survey Technical Working Group Meeting of IRM Regulators and Scientists	29 August 2005	5	NAFC, DA	17	Guidelines & Protocol Development
	Technical Working Group Meeting on IRM Strategies	19 September 2005	5	NAFC, DA	24	Guidelines & Protocol Development
	Technical Working Group on US IRM Studies with MSU Experts	26 September 2005	4	NAFC, DA	23	Guidelines & Protocol Development
	Seminar-Workshop on the Delayed Ripening Papaya Project	08 November 2005	5	BPI Manila	32	Guidelines & Protocol Development
	Technical Working Group Meeting of the IRM Regulators & Scientists for MC17 Revision	12 December 2005	5	BPI Manila	23	Guidelines & Protocol Development
	Roundtable Discussion on the Role of the Proposed IRM Advisory Team (IRMAT)	03 February 2006	4	BPI Manila	27	Guidelines & Protocol Development
	First Technical Meeting of the IRMAT on Finalization of the IRM Forms	13 February 2006	5	NAFC, DA	21	Guidelines & Protocol Development
	Conduct of the Nationwide IRM Acceptability Survey	July and August 2005	42	Nationwide	1,200	IRM & Field Testing
	Seminar-Workshop on IRM Implementation, Monitoring and Reporting with the Regional Crop Protection Centers (RCPCs)	13 to 14 October 2005	17	Palawan	39	IRM & Field Testing
	Seminar-Workshop on the Safe Conduct of Field Tests and Finalization of the Field Test Guidelines	27 to 29 March 2006	17	Baguio	61	IRM & Field Testing
	Biosafety Seminar for Nauhan, Oriental Mindoro	19 August 2005	8	Nauhan, Oriental Mindoro	145	Biosafety Seminar for LGUs
	Biosafety Seminar for the Southern Tagalog Region	12 October 2005	9	Palawan	72	Biosafety Seminar for LGUs

	Biosafety Seminar for the Ifugao Province	24 November 2005	8	Isabela, Ifugao	304	Biosafety Seminar for LGUs
	Biosafety Seminar for Sablayan, Mindoro Occidental	15 December 2005	9	Sablayan, Mindoro Occ	156	Biosafety Seminar for LGUs
	Seminar-Workshop on Biosafety & Empowering LGU for Central Luzon	16 to 17 March 2006	18	Subic	71	Biosafety Seminar for LGUs
Information Education and Communication	2005 Gawad Galing Biotech Journalism Launching	08 June 2005	5	Annabel's, Quezon City	36	Seminar/WS for Academe/Media
	Seminar-Workshop for Mindanao-Based Academe and Media	23 June 2005	6	Davao	77	Seminar/WS for Academe/Media
	Roundtable Discussion on Agri-Biotechnology for the Mindanao Business Council	14 June 2005	6	Davao	75	RTD / FGD /Public Sem
	Public Seminar on Agri-Biotechnology for Luzon-Based Mayors	15 June 2005	4	Annabel's, Quezon City	32	RTD / FGD /Public Sem
	Public Seminar on Health Biotechnology for Medical Doctors	21 June 2005	5	Annabel's, Quezon City	62	RTD / FGD /Public Sem
	2005 National Biotech Week Launch and Forum	01 July 2005	4	BSWM-DA	318	RTD / FGD /Public Sem
	Public Seminar on Biotech Shopping in Celebration of the 2005 National Biotech Week	01 July 2005	5	BSWM-DA	453	RTD / FGD /Public Sem
	Seminar on the Use of DNA Forensics for the DILG	08 July 2005	5	DILG	87	RTD / FGD /Public Sem
	Public Seminar on Modern Biotechnology for Mindanao-Based Indigenous People Communities and Farmer Leaders	29-31 August 2005	7	Davao	85	RTD / FGD /Public Sem
	Seminar-Briefing on Agricultural Biosafety for DA Region IV Officials	27 September 2005	8	BPI Quezon City	44	RTD / FGD /Public Sem
	Roundtable Discussion on Biotech Opportunities for Rural Bankers and Credit Cooperatives	05 October 2005	6	Annabel's, Quezon City	29	RTD / FGD /Public Sem
	Pre-COP MOP 3 Consultative Roundtable Discussion	17 February 2006	6	NAFC, DA	17	RTD / FGD /Public Sem
	Symposium on Biotech Applications with the Women for the Advancement of Science and Technology (WAND)	31 March 2006	4	PCA Compound	44	RTD / FGD /Public Sem
	Farmer Exchange Program-Luzon Leg	06 July 2005	10	Pangasinan	85	Farmer Exchange Program

A PO for the Biotechnology of the Philippines (BCP) to provide TA to the DA and the Bureau of Food and Drugs (BFAD) to strengthen the government's outreach mechanisms for effective and efficient regulation of biotechnology was approved by USAID on May 31, 2005. For this quarter, the BCP was expected to continue to conduct IEC and institutional capacity building activities until May 31, 2006, when the EMERGE PO to BCP was to be completed.

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

This task is in response to the request of the Institute for Plant Breeding (IPB) of the University of the Philippines at Los Banos (UPLB) for EMERGE grant assistance for field trials of a locally developed Bt eggplant. EMERGE planned to identify details of this TA during this quarter.

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

This task is part of the TA EMERGE is providing to the DA and BFAD. Its objective is to help the Philippines develop policy guidelines and institutional capacity for the regulation and eventual commercialization of plant-made pharmaceuticals. EMERGE planned to coordinate with DA and BFAD on how to structure this TA and prepare the corresponding TOR for USAID approval during this quarter.

Reform Result 2.2.2 Investment climate improved

Task 2.2.2.1 Diagnostic assessment of Investment Climate in priority sectors

For this quarter, the study team was expected to finish revising its draft reports on the coconut sector based on EMERGE comments, and EMERGE would then submit them to the BOI.

Task 2.2.2.2 Improve business development support services for SMEs

This task is in response to the issue raised by NEDA Secretary Neri in the May 13, 2005, TIERG Policy Advisory Committee meeting on the need to design effective credit mechanisms for SMEs. EMERGE was expected to work on the details of this task and prepare the TOR during this quarter.

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

EMERGE received an unsolicited proposal from the American Chamber of Commerce (AmCham)-Philippines for a grant to undertake a set of activities aimed at improving the investment climate and increasing investment in the country. The project has three components: (i) networking and business monitoring; (ii) policy research and analysis; and (iii) investment climate reform advocacy. EMERGE negotiated an appropriate TOR that supported its contract SOW, and the grant was approved by USAID on February 22. The activity got underway in March 2006.

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

Intellectual Property Office (IPO) Director-General Adrian Cristobal, Jr., requested EMERGE TA to establish the mechanisms to increase Philippine stakes in stronger IPR enforcement in the country. The IPO would like to develop strategies and projects that would allow Filipinos to see the benefits to the economy of better IPR enforcement. EMERGE planned to coordinate with the IPO on the preparation of the TOR during this reporting period.

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 a request of Department of the Environment and Natural Resources (DENR) Undersecretary M. Gerochi and Land Management Bureau (LMB) Director E. Tiamson for EMERGE TA to help LMB accelerate land titling in the country. The initial TA activity identified in several meetings was the design and preparation of building plans for storing survey and related land records for easier access at the regional level. EMERGE planned to prepare a TOR this quarter.

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

This task is in response to a request by the Executive Vice-President of the Chamber of Mines of the Philippines for EMERGE TA to help the Chamber assess manpower requirements and remuneration of the mining industry and improve the transparency of payments to LGUs and their utilization of mining taxes. EMERGE planned to work on the structure of this TA during this quarter and prepare the TOR.

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

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.

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 has been delayed further 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 this quarter.

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

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

A SOW on RORO shipping was drafted for TA to the Development Bank of the Philippines (DBP) on the preparation of an investment folio covering the Road RoRo Terminal System (RRTS) connections on the nautical highway. EMERGE and DBP finalized the TOR and, after a lengthy search, identified qualified consultants for the team (Ruping Alonzo, Gudmund Rognstand and Asaf Ashar). EMERGE sent a request for approval of the TA to USAID on December 22, 2005. As of the end of the last quarter (March 31, 2006) the request for TA was still pending with USAID for review/approval. At USAID's request EMERGE reviewed the resumes of two more local candidates for the port specialist TA and again recommended the American Asaf Ashar as more qualified for the job.

Reform Result 3.1.3 Roads adequately maintained

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

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

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

Reform Objective 3.2 Make telecommunications and IT more affordable and accessible

Reform Result 3.2.1 Telecommunications access increased and costs lowered

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

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

2) NTC, consistent with recommendations from EMERGE competition policy consultants, issued interim guidelines for innovative price plans that, a) allow CMTS operators to set and establish minimum standards for grade of service and drop call rates which should be disclosed to the Commission prior to offering and disclosed to the consuming public in all their advertising, and b) mandate improvement of at

least 50% of the difference between the voluntary standard and the NTC standard after one year, and full compliance with the NTC standard after two years.

GRP Success Indicators Achieved: Lower rates now being charged by telecommunications carriers as these began making offers up to 75% lower within days of the issuance of the Memorandum Circular.

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

EMERGE was to continue its technical support to CICT and NTC under this task. EMERGE expects to revisit and improve NTC spectrum management policy, rules and regulations in the last quarter of 2006. NTC's current priority is to develop its competition policy framework for the ICT sector (Task 3.2.1.2a).

Task 3.2.1.2a Competition policy for ICT sector formulated and implemented

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

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

Performance Milestone Expected: The NTC is expected to release a consultative document in August which would be focused on the issue of significant market power which would consider possibly imposing additional obligations on players with significant market power. EMERGE is providing TA in the research and preparation of the document, which is also an offshoot of earlier TA on competition policy.

EMERGE provided support to a forum on the Imposition of Significant Market Power Obligations (SMPO) that was held at the U.P. School of Economics on March 15, 2006. The forum highlighted various issues such as interconnection, the timeliness of the imposition of Significant Market Power Obligations for the dominant players, the need for a proper understanding and identification of the market and a rigorous definition of market dominance. EMERGE and NTC prepared for a video conference to be held on April 3, 2006, on the Imposition of SMPO with telecommunications experts in Australia and Indonesia that will enable the NTC commissioners to learn from the experience of those experts on various aspects of competition policy. The next step is to assist NTC draft a Consultative Document on SMPO in June 2006.

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

NTC has been pre-occupied with the formulation of a competition policy framework for the sector and by the end of last quarter had not made a specific capacity building request.

Reform Result 3.2.2. ICT institutions expanded and developed

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

This TA was completed in April 2005.

Performance Milestone Achieved: The consultant's report included a recommended strategy entitled, "Congressional Initiative in Linking the Global Filipino Family" to increase and promote the use of VOIP in the regions. NEDA accepted much of the consultant's advice on VOIP and the NEDA Director

General was one of its most vocal and public advocates. (See for example the article, "NEDA backs calls via Internet," *Business World*, 23 Feb 05.) Cabinet presentations on VOIP and its benefits were integrated into the Philippine Medium Term Development Plan.

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

This TA was completed in May 2005.

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

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

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

Performance Milestones Achieved: *1) In the LMI Program, community e-centers (CeCs) in Catmon, Alcantara, Borbon and Sogod, all in Cebu, Maitum and Malapatan, both in Saranggani, Aleosan in Cotabato, Manolo Fortich LGU and public high school in Bukidnon, Bontoc - Mountain Province General Comprehensive High School in Mountain Province, and Kiangang LGU and SITMo NGO in Ifugao have been established using 6 pilot modules for CeC development and e-learning.*

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

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

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

The Last Mile Initiative Program (LMIP)-Philippines drafted by EMERGE consultant Atty. Alampay was submitted to USAID/Washington by USAID/Philippines and approved. USAID/Philippines asked EMERGE to implement it. It commenced in September 2005. In this quarter, the LMIP team planned to work with Save the Ifugao Terraces Movement to set up a CeC in Kiangang, Ifugao, that would focus on promoting ecotourism and organic farming. It was also to work with CICT and the Department of Education to pilot a web board for use in i-

Schools. The Web Board will allow teachers to develop and share course outlines online. Pilot testing and training for 24 schools were planned for this quarter.

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

Performance Milestone Achieved: *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.*

Performance Milestone Expected: *CICT launch of printed, CD-based, and web-based versions of the ICT Strategic Roadmap in October 2006.*

EMERGE received USAID approval on February 6 for the TA to the CICT on the development of a 5-year strategic roadmap for the ICT sector. EMERGE also provided support for a forum on March 22 organized by CICT to discuss its draft Strategic Plan (Road Map). The consultative meeting was attended by ICT partners in the academe (Mindanao State University, Mapua Institute of Technology, the University of the Philippines) and in the private sector (including Microsoft, Accenture, IBM, Smart Communications). All four commissioners of CICT’s four main groups (Human Capital, Business Development, Information Infrastructure and e-Government) presented initial plans, programs, result areas and strategies which had been formulated with technical and facilitation assistance from the EMERGE CICT Strategic Plan Team. **(This constitutes a Performance Milestone for this task.)** In this quarter, EMERGE planned to assist the CICT groups flesh out their respective visions, goals, strategies and projects and finalize the five-year strategic Road Map for a formal launch in June 2006.

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

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. The EMERGE consultant team, headed by Prof. Dante Canlas of the U.P. School of Economics, started work on the requested assistance by conducting interviews and round table discussions in Cebu and Davao Cities with key informants on the experience with the implementation of the current BOT law. The team submitted a technical memorandum on its initial findings, which highlighted, among other things, the following key issues: (a) the need to ensure project quality at entry; (b) the important oversight function of NEDA-ICC; (c) the need for consistency of BOT incentives with the existing incentives framework of the government; and (d) the need to improve contract writing and to reform the regulatory framework for BOT projects. During the current reporting period, the EMERGE team expected to finish the rest of the interviews of key informants, analyze the information and data gathered, review the draft bill to amend the BOT law filed by Rep. Salceda, and recommend specific amendments to the current BOT law.

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.*

Expected Performance Milestones: *Resolution of key issues delaying the privatization of several large government assets approved for sale.*

At the request of DOF Undersecretary Jay Singson, EMERGE prepared two draft TORs for (a) the preparation of an inventory of government assets for privatization and (b) assistance for the privatization of specific government assets. The TOR for an asset inventory was delayed due to a fruitless search for suitable consultants. On January 9, 2006, USAID approved the TA request for 3 advisors to help DOF/PO with the privatization of certain government assets.

Usec Singson gave each of the consultants specific assignments. Sunny Sevilla's main tasks concern the financial aspects of privatization affecting PNCC, Al Amanah Islamic Bank, Iloilo Airport, IBC-13, Philippine Postal Corporation, and RPN-9. Job Ambrosio will handle the legal aspects of privatization. Ray Davis assists in the privatization of the MWSS interest in Maynilad, Nonoc Mines, and Al Amanah Islamic Bank. The consultants assisted the DOF Privatization Office 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. During this quarter, the EMERGE team was to continue with their advisory work focusing on various financial and legal requirements for privatizing these government assets.

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 Bangko Sentral ng Pilipinas (BSP), which is looking for ways to improve its regulations and expand savings. The objective is to identify the demographic variables affecting saving at the household level. BSP Deputy Gov. Espenilla, who is the primary counterpart, requested additional 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. During this quarter, the consultants planned to meet with DepGov Espenilla to discuss a preliminary report to ensure he approved of the direction they are taking. The consultants were expected to complete a draft of their final report this quarter.

Task 4.1.1.2a Philippine Capital Market Reform Agenda—Core Principles

This task was completed in November 2005.

Performance Milestone Achieved: *A workshop for the “Financial Market Core Principles and An Enabling Environment for the Capital Market” was held on 24 Oct 05, with the highest-level stakeholders in the financial market participating, including former Governor Buenaventura, current BSP Gov. Tetangco, Deputy Gov. Espenilla, members of the Monetary Board, Finance Secretary Teves, the most senior officers of the Securities and Exchange Commission, the Insurance Commission, and the Philippine Deposit and Insurance Corporation, as well as the presidents/CEOs of the different private*

sector organizations in the financial market. The presentation was well received with all of the stakeholders manifesting a keen interest in actively participating in defining the capital market reform agenda, which was expected to begin in early 2006.

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

BSP Governor Tetangco and Deputy Governor Espenilla indicated their concurrence with a draft SOW for the integration of Modules 2 & 3 at a February 22 meeting with Ramon Clarete. The other two counterparts, Mr. Leonilo Coronel (BAP Executive Director) and Mr. Jing Crisol (President of PDEx) supported this approach as well. During this reporting period, EMERGE expected to submit the TOR to USAID for approval and commence its implementation.

Task 4.1.1.3b Policy Review of Financial Sector Taxation

The Zambrano & Gruba Law Office submitted a complete draft report for EMERGE review by the Banking and Capital Markets Team Leader, Dr. Noet Ravalo, on February 20, 2006. This draft expanded on the interim report by providing more details on the cross-cutting issues (Part 2) and presents a whole new section (Part 3) on comparisons with Hong Kong, Thailand and Singapore. A surprising finding of the consultants was that the non-neutrality of financial taxation in the Philippines stems from only 4 or 5 issues. During this quarter, the consultants planned to present their report to the Tax Concerns Committee of the Capital Market Development Council (CMDC). With that, EMERGE will have completed this task and must consider the follow-on activity, the system analysis and design of an effort to correct the unequal financial sector taxation problems identified in this report.

Reform Result 4.1.2 Supervisory oversight and regulatory practices improved

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

This task is a place holder for a specific activity EMERGE might develop affecting the members of the Financial Sector Forum (FSF) jointly. The Financial Sector Forum (FSF) was created in 2004 through an MOU between the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), the Insurance Commission (IC) and the Philippine Deposit Insurance Corporation (PDIC). The issues faced by these financial supervisors are cross-cutting in nature, and the FSF provides a regular venue for them to coordinate their efforts and streamline pending issues. The GRP success indicator would be the establishment of a more unified financial governance framework that would apply to all financial market sectors. Requests for technical assistance have been received from the four supervisory agencies independently, but not yet directly from the FSF. Discussions were to be undertaken to explore possible TA requests from FSF itself, if any.

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.

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 during this quarter EMERGE expected to work with PDIC to identify the resource persons and to submit the proposed TOR to USAID for approval.

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

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

BSP Deputy Governor 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 and DG Espenilla accepted it. DG Espenilla believes, however, that many of the essential reforms are beyond the purview of the BSP, and he has begun to build a coalition of stakeholders to mobilize the roadmap. In response to DG Espenilla's request, EMERGE arranged the meeting between BSP, 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. This meeting was set for early this quarter.

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

Continuing TA from Fr. 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. Paul McNelis made his second of 4 trips in the follow-up engagement in March 2006 to work with the staff of the BSP Center for Monetary and Financial Policy. McNelis plans another trip to Manila in July 2006 to help identify and build up a model for the BSP. Paul 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.

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. This quarter, EMERGE planned to discuss with DBM

how to get the Commission's automation plan internally funded. It also needed to consider the extent of work required to review the existing drafts.

Task 4.1.2.7 TA to the Department of Finance to enhance its capital market initiatives and its oversight 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.

This quarter, EMERGE planned to work with DOF to identify the specific TA activities of two of the above requests, (a) and (b).

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. This quarter, EMERGE planned ask for USAID approval of this task.

Reform Objective 4.2 Develop competitive parity across sub-markets

Reform Result 4.2.1. Impediments from the primary markets removed

Task 4.2.1.1 TA to develop local government unit (LGU) financing (formerly Task 3.3.1.1)

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, EMERGE consultants completed most of the drafting of the PROLEND manual during the last quarter, and it was expected to be completed during this reporting period.

EMERGE discussed with Monetary Board Member (MBM) Nitz Amatong her suggestion to set up a mechanism to screen LGU fund raising activities similar to the NEDA-ICC for national government public investments. In this quarter, EMERGE planned to continue its discussion with Ms. Amatong and draft a TOR for the TA. EMERGE adjusted its work plan to reflect this suggestion of Ms. Amatong, who is on the TIERG/EMERGE Policy Advisory Committee. It also incorporated Secretary Romulo Neri's comment to undertake an assessment of how LGUs fared after issuing bonds or incurring debt from financial institutions.

Task 4.2.1.2 TA to develop the rural and micro finance markets

The first specific activity under this task is an evaluation of the Credit Policy Improvement Project (CPIP). Based on the outcome and recommendations of the assessment, EMERGE expects to design specific TA activities to help develop rural and micro-finance markets. EMERGE hired Dr. Mario B. Lamberte to assess the CPIP, which provided technical assistance to its Philippine counterparts from November 1996 to February 2006. Dr. Lamberte was expected to complete this task during this quarter and EMERGE will consider further TA in rural and micro finance based on his findings and recommendations.

<i>Reform Result 4.2.2. Credible and transparent market prices instilled</i>
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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)

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.

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.*

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.

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

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

The Grants and Special Activities Fund (SAF) Manager developed a grants manual for EMERGE, which was submitted for USAID approval. It was later discovered that the SEGIR/Privatization IQC, under which the EMERGE delivery order was issued, did not authorize its contractors to award grants. As a result, USAID/W had to amend the IQC before EMERGE could be authorized to provide grants. CARANA finally received the amendment to the SEGIR IQC in October 2005 allowing contractors to award grants. EMERGE revised its

Grants Manual based on USAID approval of the manual submitted by CARANA and submitted it for USAID/Philippines for review and acceptance on December 8, 2005. It was approved by USAID on February 17, 2006.

Grant Activity: Access for Competitiveness and Trade

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

The EMERGE Grants Review Committee conducted a review of the third revision of the ACT proposal on February 13, 2006. The revised proposal lacked the details of some of its proposed activities and as a result, the Committee asked PACT to resubmit a proposal only for Phase I, which involves development of industry sector papers and trade negotiation briefs. EMERGE hoped to be able to send the proposal to USAID for funding approval in this quarter.

Grant Activity: Assessment of the current system of motor vehicle registration, land public transport franchising, insurance and taxation, and developing recommendations to improve the system.

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 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. Work on the assessment by the technical team composed of experts from AIM and De La Salle University was expected to start in April.

Grant Activity: Investment Climate Improvement

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.

Grant Activity: Department of Agriculture Restructuring

EMERGE reviewed an unsolicited proposal from EPRA on “Strengthening the governance of the Department of Agriculture towards a more efficient and responsive support services for the rural poor.” The proposal needs to be rewritten to focus on the specific activities for which funding is requested and to consolidate other information in an annex. In addition, the committee found the proposed outputs not measurable.

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.

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Training on International Financial Reporting Standards (IFRS). This activity is about training BIR officers and staff on the Philippine Financial Reporting Standards and their tax implications in a way that is consistent with the National Internal Revenue Code. EMERGE is to provide TA to the BIR through an audit firm that is competitively selected. A selection committee composed of members from the BIR and EMERGE selected a vendor to undertake the training program on March 8, 2006. Negotiations with the selected vendor were on-going during March.

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). A selection committee composed of members from the DBM and EMERGE selected the winning bidder on March 13, 2006, after then DBM Secretary Neri asked the activity to be put on a fast track. Pending USAID approval of the activity, negotiations with the winning bidder were put on hold.

On Trade and Investment

WTO e-learning. The subcontract to IATP was amended on March 10, 2006, to reflect specific deliverables and to restructure the payment tranches.

Compliance to Kyoto Convention. EMERGE has agreed to share the costs of acquiring the services of the Parayno Consulting Group to help prepare the Philippines to be compliant with the Kyoto Convention. Specifically, EMERGE has agreed to fund two of the proposed activities in the Parayno proposal, 1) the current situation questionnaire for each of the cited Team of Technical Experts (TTE) together with the corresponding three levels of analysis, and 2) development of the table of Applicability, Compliance and Non-Compliance, Gap Analysis and Recommended strategy for all the standards and recommendations of the Revised Kyoto Convention. PACT/Philexport will cover the professional fees of the experts under the Parayno Consulting Group. Initial budget reviews were conducted during the last quarter but were halted pending USAID approval of the payment rates for the experts needed by PACT/Philexport in its subcontract with the Parayno group. This was expected to be resolved during this quarter so the activity could start.

Widening of the Localization of the National Export Congress. 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.

Conferences, Seminars and Workshops

RR 1.1.1 DOF Finance Planning Workshop 7-8 July 2005

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

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

Performance Milestone Achieved: *The symposium was designed to educate the food sector and government agencies concerned about US food standards and regulations and to familiarize the standards and regulations officials with the different kind of exportable Philippine food through IFEX*

Philippines. - Reports suggest that questions raised by the attendees were indicative of each questioner's concern and were clearly addressed by speakers, and that government agencies are now committed to decreasing miscommunication of the legal requirements that must be met to successfully export food products to the US.

RR 2.1.1 Philippine Franchise Conference 14-17 July 2005

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

RR 2.1.1 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 2.2.1 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 Cebu 2005 ICT Conference 22-24 June 2005

Performance Milestone Achieved: *This conference provided a venue that brought different sectors of the Global ICT industry to Cebu, creating a united front in a concerted effort to help Cebu realize its potential of becoming a major ICT investment destination as a software and E-Services Hub in the ASEAN Region, particularly with lessons and recommendations for cooperation with India and Malaysia.*

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 National Export Congress Localization-PhilExport & Export Development Council (EDC) Mar-Aug 06

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*

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 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 at the end of last quarter we were collecting the necessary documents for USAID approval.

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 produced a camera-ready EMERGE brochure that is ready for printing. The printing has been delayed, however, as the Project waits for USAID approval following new directives on branding from Washington.

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

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

4) Performance during the Quarter:

Administrative Tasks

EMERGE submitted the quarterly report for the preceding quarter on April 28. During its June meetings the TIERG Coordination group agreed to schedule the next PAC meeting during the first or second week of August, if possible, or in September if necessary, to avoid the vacation plans of key members.

EMERGE found a qualified candidate for the vacant SO2 Manager position and CARANA submitted a request for USAID/RCO approval on May 17, 2006, which was approved on June 22. Unfortunately, when the candidate was advised of the approval, he sent EMERGE a letter on June 23 withdrawing his candidacy, stating he had accepted a full-time position elsewhere. At the end of this quarter EMERGE was again seeking a qualified candidate available and willing to take on the assignment.

EMERGE recruited a highly qualified candidate for the Banking and Capital Markets team leader position, which was vacated by Dr. Noet Ravalo on April 7. However, before the request for his approval could be sent forward, we received an e-mail dated May 15, 2006, from the EMERGE USAID CTO asking us not to fill that position as part of a proposed \$500,000 reduction in the EMERGE contract's overall budget.

TASK 1 - Policy Analysis and Technical Assistance

Fiscal Sustainability

Task 1.1.1.1 Improved One Time Tax Transactions (ONETTT) System

The third prototype of the ONETTT application was completed and delivered by E-Konek to the Bureau of Internal Revenue (BIR) in mid-April. A meeting with representatives from the Land Registration Authority/Register of Deeds of Quezon City, was held on April 20 wherein they committed to provide full support to BIR in the implementation of the ONETTT project.

The ONETTT system will be piloted in RDO 039 in Quezon City once the User Acceptance Test (UAT) is completed by the Quality Assurance Department and the actual users of RDO 039. However, because of the annual filing of Income Tax Returns in April, the busiest month in the BIR calendar, the UAT commenced close to May. The progress of the UAT was further delayed by the heavy workload of the Quality Assurance Department particularly, the Information Systems Group, which is attending to several systems development and enhancement projects such as the e-ITS and e-FPS. As of the end of June, tests on the technical and technology infrastructure aspects were almost finished, however the users' test had yet to be conducted. The schedule of the pilot testing has been moved to September. The ONETTT project will be exhibited in the BIR 102nd Anniversary Celebration on August 1.

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

Assistant Commissioner for Internal Revenue (ACIR) James Roldan committed to pursue this task. Beyond the logistical support for training BIR staff on the tax ruling process and a subsequent seminar for around 300 tax managers, ACIR Roldan pointed out that it is necessary for the TA to cover streamlining, and possibly automation, of the tax ruling process. Streamlining includes (a) standardization and harmonization of forms, style, and presentation of rulings, and (b) reporting and monitoring of rulings delegated to revenue regional directors. This will prevent inconsistent and conflicting tax rulings that result in tax leakages.

In a follow-on meeting, ACIR Roldan further 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. Based on these meetings, the TOR of the TA was reformulated.

Upon approval of the revised TOR by ACIR Roldan, the search for consultants commenced. The TOR was presented by DCIR Roldan and the EMERGE team to Atty. Butch Guevarra, former BIR Deputy Commissioner (Legal). Atty. Guevarra pointed out that while all the activities identified in the TOR are important, the scope is too extensive. He suggested that the activities be prioritized and the scope of work for each activity be further specified to facilitate the contracting of consultants. ACIR Roldan agreed to work with the EMERGE team to refine the TOR, which we expect to complete and send forward for approval in the next quarter.

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

The Ramon V. del Rosario Center for Corporate Social Responsibility (RVR) – Hills Governance Program of the Asian Institute of Management (AIM) was awarded a grant to undertake work 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 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.

Work was carried out in two parallel operations tracks – one each assigned to motor vehicle registration and land public transport franchising, and a third track on tax liability study and administration. The operations tracks conducted process documentation work in LTO and LTFRB and validated their findings with stakeholders. From this exercise, each track produced a diagnostic report incorporating its findings which will serve as baseline information for subsequent process streamlining and integration. Using the National Internal Revenue Code and agency issuances, the tax liabilities and administration track produced a detailed report on taxes due from motor vehicle registration and land public transport franchising, and structures and procedures for assessing and collecting them.

A study group, constituted by LTO Assistant Secretary Anneli Lontoc through a memorandum order, has been tasked to work with the motor vehicle registration track. Organizational meetings and the first workshop on the revision of the operations manual have been conducted. Equally notable in the land transport franchising track is the formulation and implementation of initial recommendations, particularly in the technical evaluation sub-process. The early implementation of recommendations was requested by LTFRB Chairperson Maria Elena Bautista.

To usher in the process reengineering and integration phases, project management worked to integrate the individual tracks' diagnostic reports. Areas of interface were identified and analyzed; they will form the core of the proposed integration of the processes of interest in the undertaking. This task should be completed during the next quarter.

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

Head Revenue Executive Assistant (HREA) Elvie Vera postponed the discussion to finalize the SOW for this task until the formal request for TA was issued by Office of the Commissioner. EMERGE received the formal request letter signed by Commissioner Mario Buñag on May 9, 2006. However, before HREA Vera and the EMERGE team could finalize the SOW, HREA

Vera was replaced by HREA Tess Angeles as Head of the Large Taxpayers Service (LTS)-Excise Tax Division.

The EMERGE team met with ACIR Merlinda Ordoyo, head of LTS and HREA Angeles on May 25 to discuss the SOW. As approved, the task will have two tracks. The first track will consist of an industry and systems study that will enable BIR to have a better understanding of the cigarette and tobacco industry and be in a position to select and implement the system of proof of payment that would be most cost-effective in terms of collecting the proper amount of excise tax on cigarettes and ensuring a level playing field for all industry players. The second track will consist of reviewing, harmonizing, and codifying all issuances and regulations pertaining to excise tax on cigarettes and tobacco products.

A meeting was held with a prospective consultant Mr. Ladislao Avila, Jr. Mr. Avila is a partner in SGV & Co. and a certified public accountant who worked for Sterling Tobacco Co. in the late 1980's and early 1990's when the company was still operating in the Philippines. However, after waiting for some time for him to submit his proposal, he informed the EMERGE team that he does not have time to work for the project. EMERGE is still looking for a consultant for this task. Excise taxation and tobacco industry regulation are very specialized fields; caution and judiciousness are being exercised in the choice of a consultant for this task.

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

The TOR for improving the Tax Compliance & Verification Drive (TCVD) Project was submitted to USAID for review and approval the last week of April and was approved by USAID on May 17. Thereafter, EMERGE arranged an organizational meeting attended by the DLSU project consultant team headed by Dr. Caslon Chua, and DCIR Lucita Rodriguez and HREA Sally Marinduque. The project will be implemented over a period of seven months, starting in June 2006 and ending in December.

Together with the EMERGE team, the DLSU project team held a series of organizational and planning meetings with representatives from the different BIR offices involved in TCVD, namely: Taxpayer Assistance Service, Taxpayer Service Programs and Monitoring Division, and Information Systems Operations Service. The general project work plan was mutually agreed on during the organizational meetings. A BIR counterpart project task force to work with the DLSU project team was formally created by a BIR Revenue Special Order.

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

SGV and Company was selected and contracted as consultants for the technical assistance on upgrading tax accounting practices of BIR to IFRS. On May 3, the SGV team, headed by Messrs. Cirilo Noel and Ruben Rubio, together with the BIR counterpart team headed by DCIR Lilia Hefti and the EMERGE team held the kick-off meeting for the BIR Training Program on the new Philippine Accounting Standards/International Financial Reporting Standards (PAS/IFRS). The work plan and organizational arrangements was discussed. As agreed upon, the task will have two phases. The first phase will consist of seven sessions, wherein SGV will present the draft training module templates consisting of the IFRS accounting principles and their tax implications. The SGV team will be presenting the different views or tax treatments to the BIR. It is the responsibility of the BIR counterpart team to come up with its final position on the tax matters identified, which will be incorporated in the development of the training modules

on the tax implications of the PFRS that will be used in the training of all BIR revenue officers and examiners.

The seven half-day sessions were scheduled one every two weeks. The first session held on May 19 tackled: (1) Flowchart of Financial Statements and Annual Income Tax Return, (2) Introduction to Financial Reporting under IAS, and (3) PAS 1 Presentation of Financial Statements. The second session was held on June 23. It covered PAS 7, PAS 16, PAS 23, IFRIC 1, PFRS 5 and PAS 40.

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

On 24 April, the project team presented the draft deliverables of the first wave to the management committee of the Bureau of Internal Revenue (BIR). From the committee, Deputy Commissioner for Internal Revenue (DCIR) Virginia Trinidad and DCIR Lucita Rodriguez were designated point persons for the project. The basic reason for this TA is the requirement to implement the Lateral Attrition Law of 2006, for which Commissioner Buñag emphasized the need to be fully prepared. A second presentation to the management committee on 10 May tackled the matter of the rewards framework. The third presentation on 13 June provided more details on performance indicators, still within the rewards framework. When approved, they will form the bases for the performance contract templates of the revenue district offices (RDOs) and revenue regions (RRs).

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.

Assistant Commissioner for Internal Revenue (ACIR) Marietta Lorenzo expressed her approval of PMS and accepted it for the Policy and Planning Service (PPS), the role of PMS process owner. ***This constitutes a performance milestone for this task.***

The EMERGE team mapped the second wave for PMS. Its components will be (a) PMS for the revenue regions, (b) Interim system for the implementation of the Lateral Attrition Act of 2006, (c) communication/change management plan, (d) outcome metrics for evaluation, (e) PMIS aligned for the Large Taxpayers' Service (the pilot unit), RRs, and RDOs, and (f) rewards framework. ACIR Lorenzo was also tapped for her inputs to the second wave. USAID approval will be sought in the next quarter and implementation begun.

Ms. Vera Songwe, Senior Economist of the World Bank, East Asia and the Pacific Region, was consulted on the matter of supplemental funding for the PMS TA.

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

The preparations of all agency restructuring plans follow a uniform sequence of activities: briefings on Executive Order 366 (Directing a Strategic Review of the Operations and Organizations of the Executive Branch), submission and discussion of Sector/Sub-Sector Profiles by sector experts, consideration of the Agency Rationalization Plan by the Department of Budget and Management (DBM) Composite Team, DBM Undersecretary Laura Pascua, and

presentation of the evaluated Agency Rationalization Plan to the Executive Committee consisting of DBM Secretary Rolando Andaya and Civil Service Commissioner Karina David.

The EMERGE team met Development Academy of the Philippines (DAP) officials Ms. Dedeng Mendoza, Ms. Geraldine Naranja, Ms. Macky Mallari on 21 April to discuss the overall evaluation of the Sector/Sub-Sector Profiles. It was noted that while the TOR required specific recommendations on programs, projects, and activities, mere general directions were provided in the in the Sector/Sub-Sector Profiles. Ms. Mendoza remarked that the limited budget precluded the formulation of specific recommendations. However, the sector experts participated intensively in sessions for reviewing the Agency Rationalization Plans and DAP will summarize their inputs and incorporate them where applicable. EMERGE requested a status report showing where each of the Agency Rationalization Plans is in the submission-to-approval spectrum.

The quarter's activities largely consisted of the review and evaluation of the Agency Rationalization Plans by DAP and DBM. A number of comments, issues, and recommendations invariably arise across the agencies. These include skewed personnel ratio towards administrative positions, changes in organizational structures and reclassification, merger, or deactivation of positions, offices, and divisions to address overlaps in functions, assessment of a government owned or controlled corporations' (GOCCs') income-generating capacity, the necessity of granting a corporate personality to an entity, outsourcing of non-core functions, and establishment of linkages with non-government groups doing work similar to that of a government agency. A notable observation in the Agency Rationalization Plans thus far reviewed is that the number of proposed positions in an agency exceeds the current number of positions. A constraint to this proposed measure is that the personal services budget is pre-determined by Congress through the General Appropriations Act.

As of 16 June, 58 Agency Rationalization Plans had been submitted to DBM, 9 from department/agency levels and 49 from other executive offices and GOCCs. DAP has yet to submit the additional 13 sector profiles. Some of the sector experts hired by DAP managed only to prepare notes and not complete reports. Nonetheless, these notes have been used in the agency meetings and the sector experts have also participated in those meetings.

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

In the EMERGE team's consultations with DBM Undersecretary Pascua, she requested training for DBM personnel on program assessment and evaluation for the purpose of preparing an annual Budget Strategy Paper (BSP). BSP is seen as a potent tool for ensuring the effectiveness and sustainability of development projects. EMERGE agreed to prepare a SOW for the task and held informal consultations with Philippine Institute for Development Studies (PIDS) fellows who did relevant work in the area.

Subsequently, however, this task had to be 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 (PART) of the OMB/USG to the Philippines

DBM Undersecretary Laura Pascua expressed approval of the TOR for the TA on PART. The task is to bring to the Philippines a staff member of the U.S. Office of Management and the Budget (OMB) or a private consultant knowledgeable about PART to conduct orientation

seminars and consultation meetings with officials and technical staff of the different government agencies. This consultant will also conduct an assessment of the feasibility of adopting PART in conjunction with the different public expenditure management reform initiatives of the Philippine government. Implementation of this task is being planned for October 2006. Undersecretary Mario Relampagos has been designated as the DBM counterpart. EMERGE received a formal letter from DBM Usec Pascua dated 27 Jun 06 requesting this TA.

Task 1.2.2.3 Working Model to Predict Cash Inflows Installed at DBM

DBM Usec Pascua has again expressed her desire that the Fiscal Planning Bureau staff be trained on the revenue forecasting model developed for them by Mr. Jem Armovit through an EMERGE TA task in 2005. Knowledge from the training, used in conjunction with working knowledge of other revenue forecasting models, will result in greater confidence for the technical staff and better forecasting results as DBM shifts from monthly to quarterly budget releases. Usec Pascua also requested the purchase of EViewsTM software be part of that task.

Work on the SOW and TOR has been delayed due to Undersecretary Pascua's notice that she wishes to consult with the Fiscal Planning Bureau before going forward.

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

The usefulness of a website to DBM as it dispenses its duty of disseminating timely information on appropriations and budget releases of infrastructure and development projects of legislators was articulated in several meetings of the EMERGE team with DBM officials, namely, Director Romeo Hardejan and Mr. Vince Manansala of the Budget Information Service, Director Delantar and Mr. Hordejan of the Regional Operation Coordination Service, and Undersecretaries Pascua and Relampagos. Undersecretary Relampagos is the agency counterpart.

It was agreed that TA to help DBM systematize the dissemination of information about budget releases on both legislators' projects and the internal revenue allotment (IRA) of local government units should address the following needs: (a) streamlined and automated preparation of the special allotment release order (SARO) and the notice of cash allocation (NCA), (b) a database design that supports the generation of reports required by clients and automatically uploaded to the web, and (c) an expenditure tracking mechanism for infrastructure projects. A related need is an incentive mechanism for line agencies to release required data to support monitoring activities.

The SOW was prepared incorporating the above activities and deliverables and sent to Undersecretary Relampagos for review and comment. We expect to start this task in the next quarter.

Expanded Trade and Investment

Task 2.1.1.1 Assessment of the economic impact of trade liberalization

At the beginning of the quarter, 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. It was meant 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, given the USAID reduction of the EMERGE budget.

Task 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

The TOR for this task was approved by the USAID in May. EMERGE met with the Parayno Consulting Inc., the vendor for the purchase order (PO), and discussed the terms of the PO. Implementation of the project is on-going and is expected to be completed by August 2006.

Task 2.1.2.4 (EMERGE will develop other tasks with the Commissioner of Customs in pursuit of this reform result)

EMERGE prepared a draft TOR for additional TA for BOC. The proposed activities are intended to enhance trade facilitation and governance through customs audits, super green lane, and liquidation and billing. On May 26, the EMERGE team and USAID met with BOC Deputy Commissioner Nicolas to discuss the draft TOR, including the actions needed on the part of the BOC in order to make the TA effective. The BOC needs to address these actions before the TA can proceed in the next quarter.

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

EMERGE finalized the TOR for this task in May, in coordination with the office of DA Undersecretary Segfredo Serrano. The TA has five (5) major activities, namely: (i) development of an SPS policy statement; (ii) development of interim organizing arrangements leading to the dual agency SPS administration; (iii) development and streamlining business procedures for enforcing SPS measures; (iv) development of operating manuals for the streamlined business procedure; and (v) development of systems architecture on processes. At the end of this quarter EMERGE was reviewing the proposed budget of the Caesar Virata Associate (CVAI), Inc., the proposed vendor. The TOR is expected to be approved by USAID early next quarter.

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

EMERGE finalized the TORs for this task in coordination with the Bureau of Product Standards (BPS), PhilExport and Export Development Council (EDC). The TA will be implemented in two phases: Phase 1 is on the specifications of the functional and system design of the portal and Phase 2 is on the development and establishment of the portal. Two TORs were prepared: (i) the mother TOR of the EMERGE program of TA at the BPS; and (ii) the TOR for Phase 1. The TOR for Phase 2 of the TA will be prepared after the completion of Phase 1.

The hardware component of the portal will not be part of the proposed EMERGE TA. The BPS, through the EDC, will tap the Export Promotion Fund (EPF) of the Bangko Sentral ng Pilipinas (BSP) for this instead. The EPF is a BSP program in support of export promotion to help increase the country's foreign exchange earnings. Last year, the EDC was given PhP150 million from this fund in support of its activities. For this year, Ms. Emma Mijares of the EDC said that DTI has committed PhP100 million as its contribution to the Fund. Ms. Mijares is optimistic that the BSP will support the portal project.

Nonetheless, EMERGE is concerned that there are no official documents yet showing support for the hardware. EMERGE explained to BPS that USAID might raise this as an issue when EMERGE submits the TOR to USAID for approval. This is the primary reason why the TOR for Phase 1 was not submitted to the USAID as originally planned for this quarter.

In June, the BPS started work on securing the funding for the hardware component of the portal. Dir. Jesus Mottomull wrote the EDC to assist the BPS in getting funding support from the BSP Export Promotion Fund. EMERGE is waiting for the official response of EDC or the BSP assuring funding support for the hardware. Meanwhile, EMERGE, in coordination with the Project Steering Committee, started evaluating the CVs of possible consultants for Phase 1.

EMERGE will submit the TOR of Phase 1 to USAID for approval early next quarter. If approved, Phase 1 is expected to be completed in November 2006.

Task 2.1.5.1 Philippine global trade e-learning program

As of June 30, the program has 421 active participants, 5.2 % higher than the original target of 400 participants. Overall, the program has enrolled a total of 545 scholars. However, 45 of them have been inactive since their enrollment while 79 have asked to be de-listed from the program. Of the 421 active participants, 67% are from participating government agencies and the remaining 33% are from the academe and civil society. Majority of the participants from the government hold technical and managerial positions. Those from civil society groups hold executive or technical positions, including education and advocacy work, while those from the academe are members of faculty from Economics departments.

Five on-line courses (2 introductory and 3 core courses) have been implemented as of end of the quarter. Only a quarter of the active participants were up to date with the course requirements (quizzes) of all five courses. However, with the upcoming Elective Courses and face-to-face workshops, participants are fast catching up with course requirements.

To encourage participants to complete the courses, a raffle promotion was launched wherein those who completed the required exercises/quizzes are qualified to join the raffle and get a chance to win from PhP 300 to 500 of prepaid internet or mobile phone load. Other promotional activities planned by the IATP Secretariat include: (i) computers for those who finish the on-line integrating courses; and (ii) free bus tickets or airfare for the e-learners outside of Metro Manila for the face-to-face workshop.

The IATP Secretariat also organized area meetings and informal get-togethers of the participants on June 23 and 30. The primary purpose of these activities was to provide an avenue for the e-learners to meet themselves face-to-face before the face-to-face workshop scheduled for September 2006 and give their feedback/concerns on the program to the IATP Secretariat and EMERGE. EMERGE received favorable feedback on the program from the e-learners. The e-learners found the program very useful in their work assignments. In particular, they found the modules very timely in their current work on Philippine trade negotiations, and in particular for the on-going negotiations on the Japan-Philippine Economic Partnership Agreement (JPEPA).

During the quarter, EMERGE coordinated with the IATP Secretariat the preparation of the upcoming face-to-face workshops. The workshop design, schedules of the workshops and invitation to speakers were finalized. The workshops are scheduled for September and October 2006. Other activities for next quarter are: (i) implementation of the optional/elective on-line courses starting July; and (ii) special class for 30-40 judges from the Philippine Judicial Academy (PhilJA) to be conducted starting in July. This special class was at the request of Atty. Amorfin Herrera, Chancellor of PhilJA. The judges will take all the core on-line courses and just one optional course, the National Legislation Implementing International Trade Rules.

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

"In this quarter, BFAD Director Leticia Gutierrez had ordered the technical and legal review of the proposed guidelines on the labeling of processed foods containing GMOs for the purpose of issuing the guidelines in the form of a BFAD circular. BFAD lawyers had recommended however that in light of the EO 514 on the national biosafety framework, which President Arroyo issued on March 17, 2006, BFAD coordinates with the National Committee on Biosafety of the Philippines (NCBP) on biosafety matters, such as the proposed guidelines. Towards the end of the quarter, BFAD had endorsed to the Department of Health, which is a member of the NCBP, the proposed guidelines in compliance with the administrative procedures of the EO. It had also published on its website the proposed guidelines to solicit comments from the general public. We expect the Secretary of Health to issue an Administrative Order enabling the guidelines next quarter."

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

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

Performance Milestones Achieved: 1) Memorandum Circular No. 02, series of 2006, was issued by the Secretary of the Department of Agriculture (DA), which sets the guidelines for field testing plants derived from modern biotechnology. Before this the DA used as its interim protocols those of the National Committee on Biosafety of the Philippines (NCBP). This will provide a more coherent policy framework for bio-safety assessments and field testing protocols.

2) 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.

3) 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.

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

The Biotech Coalition of the Philippines (BCP) conducted the following institutional capacity building and IEC activities for government regulators, technology developers, farmers and other stakeholders of biotechnology during this reporting period:

- ***Institutional Capacity Building***
 1. Scientific Meeting with the Bureau of Food and Drugs and Department of Agriculture Regulators on GM Food Safety for Next-Generation Crops (02 May 2006; Richmond Hotel)

2. Technical Working Group Meeting with BFAD and DA Regulators on Identity Preservation (12 May 2006; BPI Compound, Manila)
 3. Insect Resistance Management Advisory Team (IRMAT) 2nd Technical Meeting (01 June 2006; BPI Compound, Manila)
 4. Seminar-Training with the Scientific and Technical Review Panel (STRP) and the Biotech Core Teams on Adventitious Presence (12 May 2006; BPI Compound, Manila)
- ***Information, Education and Communication***
 5. Seminar Workshop on Biosafety & Economic Opportunities for Agricultural Biotech (24-25 April 2006; San Jose, Occidental Mindoro)
 6. Public Seminar on GM Pharmaceutical Crops (02 May 2006; Richmond Hotel)
 7. Farmer Exchange Program-Visayas & Mindanao Leg (Gingog City and Valencia, Bukidnon; 29-30 May 2006)

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

The EMERGE PO to BCP was extended at no cost until July 2006 so BCP could help DA and DOST prepare and manage various biotech-related activities for the National Biotechnology Week.

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

During this quarter, EMERGE received three unsolicited proposals for grants to help the proponents comply with the DA AO 8 biotech regulations for the general release to the environment of three technologies. These are: (i) field testing of transgenic papaya with delayed ripening trait toward commercialization by Dr. Evelyn Mae Tecson-Mendoza; (ii) accelerating the development and commercialization of papaya ringspot virus (PRSV) resistant papayas in the Philippines by Dr. Desiree Hautea; and (iii) new fruit and shoot borer-resistant (FSBR) eggplant varieties for the Philippines, also by Dr. Desiree Hautea.

The EMERGE Grants Committee met twice during the quarter to evaluate the proposals. In these meetings, Dr. Saturnina Halos was invited to join the Committee to provide the scientific perspective of the review. The first meeting was held on May 18. The Committee observed that the proponents laid down sets of activities for which they asked EMERGE to help finance. The Committee decided that before the proposals can be evaluated, the proponents should submit additional information such as: (a) NCBP certificate that the technology has successfully met contained use monitoring requirements to establish its transgenic nature and for biosafety; (b) in the case of the FSBR eggplant, to ask Dr. Hautea for NCBP requirement for contained use biosafety monitoring; (c) DA-BPI requirement for general release to the environment; (d) the institutional proponent of the proposal; and (e) IP status.

The Committee met again in June 23 to evaluate the responses of the proponents to the initial comments of the Committee. On the PRSV, Dr. Halos informed the committee of the new information she has learned from a recent meeting on the development of a conventionally-bred PRSV resistant papaya. The committee decided to verify this new information. On the FSBR

eggplant, the committee found that the response of Dr. Hautea did not specify the activities required to secure the NCBP certificate. The committee decided that EMERGE assistance will come in two phases: the first phase will include activities to satisfy the NCBP requirements; the second phase will include activities that will enable the proponent comply with the DA AO 8 biotech regulations for the general release to the environment of the technology. Given this, the committee decided to ask Dr. Hautea to obtain the NCBP requirements and to prepare a proposal for the first phase of the TA based on the NCBP requirements.

For next quarter, (i) EMERGE will continue to evaluate the proposals and identify the activities that can be implemented within the project life of EMERGE; and (ii) the TORs of these activities will be submitted to USAID for approval

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

EMERGE received an unsolicited grant proposal from ISAAA to assist DA and the BFAD with following activities: (i) develop protocols for re-application, commercialization, and de-listing, all of which are meant to implement specific provisions of DA AO 8; (ii) develop guidelines on the regulation of GM pharmaceutical crops; (iii) formulate policy briefs strengthening the science-based implementation of the National Biosafety Framework (NBF); and (iv) conduct study on the investment climate of the biotech industry in the country

EMERGE expects to submit the TOR for this task to USAID for review and approval in July. This TA to DA is expected to be implemented over a period of one year.

Task 2.2.2.1 Diagnostic assessment of Investment Climate in priority sectors

The study team finished revising their draft reports. Two of the reports, however, need some more editing/rewriting. EMERGE will submit the reports to the BOI during the next quarter.

Task 2.2.2.2 Improve business development support services for SMEs

With the hiring of Dr. Mario Lamberte, the Microfinance Team Leader, EMERGE will focus on helping to operationalize the credit bureau in the next quarter, when the credit bureau law is expected to be enacted by the Philippine Congress. With the bill signed into law, TA to the agency assigned by it to draft its implementing rules and regulations and code of conduct, as well as to the credit bureau itself to help make its services quickly available, not only to commercial banks but also to other lending institutions, will facilitate better access by SMEs to credit.

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

The American Chamber of Commerce (AmCham)-Philippines implemented activities in several areas in support of improving the country's investment climate.

On *bureaucracy and corruption*, the Chamber (i) sought the cooperation of PCCI President Donald Dee to host the workshop on red tape and corruption sometime in August 2006; and (ii) monitored SBMA used vehicle auctions for possible illegal entry through the Philippine customs.

On *infrastructure*, AmCham (i) continued efforts to lower power prices, welcoming Meralco's decision to allow open access for large consumers; (ii) wrote ERC chairman requesting early implementation of open access for customers consuming 1MW+ monthly; (iii) brokered meeting with NPC officials and large AmCham power user to discuss more competitive electricity rates; (iv) arranged for EMERGE BOT experts to meet with AmCham, ECCP, CanCham to discuss

BOT law amendments; and (v) hosted DPWH Usec Bonoan who briefed on road/other infrastructure projects.

On *legislation*, three AmCham committees (Consumer Affairs, LEG, and Taxes and Tariffs) are guiding strategy to correct EVAT 70% input cap and working with other chambers. AmCham discussed with Sec Teves, Commissioner Bunag and Cong. Lapus the impact of 70% cap on input VAT on small retailers with small margins. Unless remedied, hundreds of thousands of retailers could go out of business and GRP would collect much less revenue. They were cautioned that a stand-alone bill to remove the cap would open entire EVAT law to change and risk undermining GRP improved fiscal picture. BIR Commissioner expressed willingness to be as helpful as possible.

AmCham ED spoke with Presidential Adviser on Political Affairs Claudio to request Clark SEZ issue be placed on May 16 LEDAC agenda. LEDAC prioritized this issue. AmCham organized meeting for team of EMERGE BOT experts to discuss their proposals for BOT law reform. AmCham Agribusiness and Energy Committees discussed biofuel policy issues and legislation with DOE BioFuels Office Director. AmCham released statement on biofuels bill supporting incentives to develop domestic production but opposing mandated additives to gasoline/diesel and urging that neither petroleum retailers nor car manufacturers be liable for engine damage and new fuels should be fully tested. AmCham also discussed fiscal incentives rationalization bills with 100 CFOs of SEIPI member firms..

On *information and communication*, AmCham met with new Dell International Services country manager to discuss advocacies to support the growing call center industry. ICT COM will prepare position paper on DICT and schedule briefing at AmCham by GRP ICT leaders, including new CICT Secretary and House and Senate ICT experts. AmCham member Microsoft (US) sponsored CEO Forum "Software innovations RP." Speakers said RP has great opportunity to grow in IT services but industry badly needs Industry Champion to pull everything together like India's NASSCOM.

On *mining*, LEGCOM chair attended dinner organized by PCM president Romualdez to review quality of current mining law. Also in attendance were Secs. Neri, Reyes and Teves and ambassadors of Canada, Japan, South Africa, UK and IFC and WB representatives. Romualdez said there is no need to repeal or amend Mining Act, citing independent reviews by 4 law firms.

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

EMERGE drafted a TOR for TA to Intellectual Property Office (IPO) Director General (DG) Adrian Cristobal, Jr., on IP asset commercialization. The TA has two components. The first one is a training program for representatives of selected universities and publicly supported research centers. With this activity, IPO assists at least six state universities and 5 research centers set up IP policies and technology licensing offices (TLOs). IPO recognizes the critical role of a US expert on IP policies, IP asset marketing and technology licensing for the success of this reform endeavor. It views the US as highly successful in IP asset commercialization of university funded research, which is generally regarded as the result of its Bayh-Dole Act in the 1980s.

The second component is a training program on IPR for the regional officials of the Department of Trade and Industry (DTI). The activity aims to involve business councilors of DTI in the region in the IP asset commercialization program. IP assets are important sources of competitiveness, and need to be protected. IPO has no offices in the regions and is cooperating

with DTI Regional Operations to facilitate applications for IPRs by universities and research centers in the regions.

The EMERGE Technical Director presented the planned TA activity on IP commercialization at the IPO's roving seminar on this topic on June 6 in Cebu and on June 9 in Manila.

For next quarter, EMERGE expects to finalize the TOR and submit it to USAID for approval and to begin the training.

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

No activity was undertaken for this task this quarter. EMERGE is waiting for DENR/LMB to provide written assurance that some of its funds will be allocated for the actual construction of the regional buildings to store survey and related land records if EMERGE proceeds to support their design.

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

During this quarter, Ramon met a number of times with Ms. Nelia Halcon, Executive Vice-President of the Chamber of Mines of the Philippines, to discuss the structure and components of their unsolicited grant proposal. Based on these discussions, he drafted a program description for the grant. Two major activities are proposed: (i) Transparency in Payments and Utilization of Mining Taxes; and (ii) Manpower and Remuneration Survey in the Mining Industry.

The first activity will involve the formulation of guidelines/regulations that the Cabinet Secretaries in the Minerals Development Council (MDC)—the Secretaries of DENR, NEDA, DOF, and DTI—may issue in pursuance to a possible Presidential EO to ensure sustained benefits for the poorer residents in mining areas. In the second activity, a survey would be conducted and the results analyzed to produce an action plan to remedy the current gaps in mining-related manpower skills of the country. The industry is expected over the medium term to attract investments in the industry, and the last thing this country wants is to have insufficiently skilled manpower to complement the capital that may come in. Ms. Halcon has already observed fairly stiff competition among companies for relatively scarce skills, resulting in sharp increases in compensation rates.

For next quarter, EMERGE expects to finalize the TOR and submit it to USAID for approval.

Infrastructure

Task 3.1.1.1b Reduce Inter-island Shipping Costs—Ports

EMERGE developed a TOR for NEDA Director General Neri's request for assistance in improving the competition in the maritime industry. USAID approved the hiring of Henry Basilio and Rafael Hernandez as consultants for this TA.

The team made various presentations on the issues of competition and privatization in North Harbour and other international ports to the Export Development Council (June 20) and the Board of Constructors (June 21). The Export Development Council decided to take the following positions: (a) implement EO 308 in North Harbor, which calls for at least two competing port operators; (b) grant a permit to Harbour Center to handle international container

cargo and (c) call PPA's attention to the non-uniform charging of RORO fees in PPA ports and double charging of RORO fees (fees are paid at the ports of entry and exit).

During the 4th NEDA Board Regional Development Committee (RDC) meeting on June 29, the team discussed several outstanding issues: (a) double charging of RoRo Terminal Fees, that is charging by PPA at points of entry and exit; (b) collection of wharfage dues in some PPA RORO ports; (c) requirement by some LGUs to use local labor for cargo handling, which resulted in an increase in shipping costs; and (d) impact of reviving the requirement to secure for vehicles loaded in RORO ships an anti-carnapping clearance. The RDC issued a resolution to bring these issues to the attention of the Cabinet.

The team also attended the first meeting of the RORO Technical Working Group (TWG) of the House of Representative on June 22. The TWG has been tasked to consolidate and draft a substitute bill to House Bill No. 335, entitled, "AN ACT INTITUTIONALIZING THE ROAD ROLL-ON/ROLL-OFF TERMINAL SYSTEM, AND APPROPRIATING FUNDS THEREFOR" earlier filed by Ilocos Norte Representative Imee R. Marcos.

EMERGE expects Henry Basilio and Rafael Hernandez to complete a policy paper on increased competition in the maritime industry in the next quarter.

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

Funding for this TA was eliminated as part of the USAID reduction of the EMERGE budget, mentioned above.

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

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 had an inception meeting on May 15. They made their first field visit to Pilar, Sorsogon, Aroroy and Masbate City in Masbate on May 22-27. After the field visit, EMERGE arranged a debriefing of the team on June 6 to discuss its initial findings. They see great potential in RRTS investments in the areas they visited. The team and Raul Pasagui of DBP also visited the nautical highway's Manila-Batangas-Mindoro route to learn about and gather data on RORO operations. They made another field visit on June 21-23 to the municipalities of Bogo and Daanbantayan in Cebu province. They expect to deliver the draft investment folio in the next quarter, which will be presented to the DBP management for review and comments.

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)

NTC's current priority is to develop its competition policy framework for the ICT sector (Task 3.2.1.2a), so further work on this task was put on hold.

Task 3.2.1.2a Competition policy for ICT sector formulated and implemented

EMERGE facilitated a video conference on the Imposition of Significant Market Power Obligations (SMPOs) and Asymmetric Regulation at the Asian Institute of Management. NTC commissioners and various stakeholders attended the conference. Experts from Indonesia and Papua New Guineau participated in the video conference. Tony Shaw, an Australian expert on telecoms regulation acted as resource person.

The EMERGE team moved to the next phase of developing a competition policy framework for the ICT sector. It started research on the interconnection disputes handled by NTC over the past five years. This will help the team prepare a consultative document on SMPOs and on Reference Interconnection Offers (RIOs). The team expects to submit the draft consultative document on Imposition of SMPOs in the next quarter.

With EMERGE assistance, NTC on June 29 formed a TWG, composed of key NTC officials and representatives from the private sector, that will formulate a draft policy paper on RIOs. The TWG will have its initial meeting the third week of July and subsequent weekly meetings have been scheduled. The EMERGE team will provide technical support.

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

NTC is still pre-occupied with the formulation of a competition policy framework for the sector and has yet not made a specific capacity building request to EMERGE.

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)

EMERGE conducted basic training for the Community eCenter (CeC) in Kiangán, Ifugao, from April 24 to April 28, 2006. Joel Umali led the LMIP team conducting advanced training on web development for the Kiangán CeC from June 7 to 9, 2006, in Ifugao. There were 15 participants coming from six different organizations in the area.

EMERGE likewise conducted training on “i-School Web Board – Teacher in the Web e-Learning Program” from May 15 to June 2, 2006, at the Department of Education (DepEd) computer laboratory facility. Among the skills taught were: making blog spots, online assessment, wikipedia, email and other online applications.

A significant performance milestone was the issuance of Memorandum No. 167 on April 27, 2006 by DepEd, launching the i-Schools Webboard Training Program. EMERGE had further discussions with DepEd and CICT on the schedule of the last round of i-schools web board training. The final training will be held in Davao City tentatively the first week of August.

EMERGE started processing the acquisition of a computer that would be turned over to the Aleosan CeC in Cotabato, Mindanao, as a component of LMIP assistance to that eCenter.

EMERGE met with Abet dela Cruz of e-PLDT and Level Up Games on the proposed development of the jobs database in the Manolo Fortich LGU CeC. EMERGE drafted and finalized an SOW for the development of a program for the jobs database.

Various meetings were held by the EMERGE team with different stakeholders on setting up new CeCs. The EMERGE team had initial discussions with Casa San Miguel in San Miguel, Zambales, on setting up a CeC there. Private sector firms, e.g., Starbucks, Siemens, are supporting the development of Casa San Miguel as a center for Philippine arts and literature. The team explored the possibility of establishing a rural bank-based CeC for the delivery of online government services in a meeting with Daniel Arcenas of Rural Net.

The Save the Ifugao Terraces Movement (SITMO) CeC in Kiangán will be launched on July 27-28, and SITMO will present a business plan for it. EMERGE is working on the final version of the manual on web development, which the team hoped to turn over to the Kiangán CeC during the scheduled launch.

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

EMERGE supported the Synthesis and Writing Session for the ICT Strategic Roadmap in Tagaytay City and helped CICT refine the draft Roadmap. EMERGE then sent invitations to bid on the production of the ICT Strategic Roadmap webpage, CD and printed material. Three companies submitted bids and Think Ideas, Inc., was selected.

EMERGE assisted CICT and the Philippine Computer Society with a consultative forum on the draft Roadmap during the 11th ICT Congress Summit, which was held on June 5 at the Crowne Plaza Hotel. EMERGE provided the CICT with documentation of the proceedings. CICT commissioners also conducted consultations on the draft Roadmap in the regions. The comments and suggestions made on the draft Roadmap during the Summit supported the objectives and directions laid down in the Plan. EMERGE expects to receive the draft Roadmap in July for publication.

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

The EMERGE team met with various stakeholders to get their views and comments on the Philippine experience with BOT law implementation, e.g., American Chamber of Commerce, private proponents and government agencies. The main issues raised in the discussion were: (a) the need to ensure the stability of contracts, (b) transparency and competition in bidding for infrastructure projects (c) careful review of the present provision (in the BOT law) regarding unsolicited projects. The team prepared a technical memorandum on the proposed amendments to the BOT law using inputs from the various consultation workshops, roundtable discussions and meetings with key informants. It included a draft bill amending certain provisions of the BOT law.

EMERGE presented the team's findings and recommendations on the amendments to the BOT law to USAID (Robert Wuertz, Tyler Holt and Tet Robielos), BOT Center (Celso Manangan), EPRA (Ciel Habito) and Action for Economic Reforms (AER) on June 15:

- transform the BOT Law (RA 7718) into the principal legal framework for public-private partnerships in the Philippines
- emphasize competitive bidding procedures as the central tenet of government procurement policy
- assert the sanctity of contracts
- build the implementation capacity of all levels of government, including raising overall project quality
- ensure the formulation of a substantive and operationally efficient implementing rules and regulations.

EMERGE submitted its report to the NEDA Infrastructure Committee and BOT Center. A formal presentation to the NEDA Infrastructure Committee is expected in the next quarter.

The BOT team met with Secretary Raphael M. Lotilla, (DOE); Deputy Director General Margarita R. Songco (NEDA); Assistant Director General Ruben S. Reinoso, Jr. (NEDA); Mr. Roderick Planta (NEDA); and Mr. Paulo Rodelio M. Halili (DOE) on June 28 to discuss the salient points of the review of the BOT law and proposed amendments to the law. The team

explained the issues in the current BOT law requiring the immediate attention by policymakers/legislators, namely:

- Poor project quality at entry
- Inadequate legal framework
- Operationally inefficient IRR
- Dominant private sector role in contract writing
- Inadequate monitoring by the implementing agencies during project implementation and entire cooperation period
- Vagueness of the audit process
- Unstable and unpredictable regulation

Task 3.3.2.1b Inventory of government assets for privatization.

The DOF Privatization Office (PO) and EMERGE agreed to have a two-stage process for this task. The first stage will consist of establishing a comprehensive data base inventory of government assets to be privatized, while the guidelines for privatization shall be prepared during the second stage. EMERGE drafted the TOR for the first stage. DOF PO is reviewing CVs of proposed consultants for this task and we expect to proceed in the next quarter.

Task 3.3.2.1c Privatization of certain government assets.

Sunny Sevilla assisted the DOF PO with the following: (a) valuation of TV channels RPN-9 and IBC-13 and presentation of the valuation report to the Privatization Council Technical Committee; (b) analysis of the PNCC's toll operating agreements to find out PNCC's share of the toll revenues in case its franchise would not be renewed by Congress; (c) meetings with PNOC-EDC regarding its privatization; (d) drafting a new TOR for the financial advisor of PhilPost; and (e) advice on the resumption of the privatization plan for PNOC-EDC.

Job Ambrosio assisted the PO with the following: (a) advice on the procedure for the declaration of property dividends to the national government by Al Amanah Bank; (b) review of the TOR for the financial advisor of PhilPost; (c) meeting with Atty. Ramil Bugayong regarding the documentation requirements for the restructuring of Nonoc mines; (d) legal research on the legality of NTC offering broadcast frequencies through a public bidding; (e) a meeting on the legal steps to take in the restructuring of Nonoc mines; (f) research on the Special Purpose Trusts as a security for the purchase of Nonoc shares and assets from Philnico; (g) review of opinions of the Department of Justice and administrative orders affecting the proposed transfer of Al Amanah's ROPOA as dacion en pago to the Bureau of Treasury; and (h) meeting with BSP Deputy Governor Nestor Espenilla to discuss the regulatory treatment of Al Amanah Bank as a private bank engaged in Islamic banking.

Ray Davis assisted the PO with the following: (a) discussions with the Office of Government Corporate Counsel and ABN AMRO on Ondeo's proposed shareholder rights for a new private majority shareholder in Maynilad and (b) preparation of a proposal to Jinchuan on the settlement of Philnico debt to the national government; (c) finalization of assumptions in the valuation of Nonoc mines to be used in a presentation to Jinchuan in China on the week of May 7th; (d) meeting with Manila Water on the preparation of the TOR for bidding for the controlling ownership of Maynilad; (e) preparation for the trip to China to meet with Jinchuan; (f) advice on

the Financial and Technical Assistance Agreement (FTAA) to be proposed to the Jinchuan investors who seek to acquire Nonoc mines.

Undersecretary Jay Singson requested a 6-month extension of the advisory services of Sunny Sevilla, Ray Davis and Job Ambrosio and met with USAID and EMERGE on June 16 to discuss it. The PO expects to sell or conclude negotiations for the privatization of several important, but complicated government assets by the end of 2006 or during the first quarter of 2007, but needs 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.

Banking and Capital Markets

Task 4.1.1.1 Technical Assessment of saving patterns and behavior

In this quarter, Dr. Lisa Bersales and Dennis Mapa, Sr., briefed Banko Sentral ng Pilipinas (BSP) officials headed by Deputy Governor Nestor 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 BSP Division of Economic Research (DER) may ask EMERGE for assistance to bring to Manila a US Fed staff member to help DER staff design the Philippine consumer finance survey.

This task should be completed in the next quarter. The consultants requested a no-cost extension until July 30, 2006, to complete their report.

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

EMERGE prepared the terms of reference for this task and met with the private sector Capital Market Development Council (CMDC) officials to resolve the issue about whether this task conflicts with the ADB-funded Capital Market Development Plan, i.e., “the Blueprint.” The CMDC Secretariat has been working to implement and monitor the SEC-supported Blueprint. EMERGE obtained an endorsement from the CMDC for this task. CMDC/Finex encouraged EMERGE to inform SEC Chairperson Fe Banir about it. SEC has pushed for CMDC adoption of the Blueprint. The ADB Blueprint in fact calls for precisely what the CMRA exercise is trying to do, developing a reform agenda for the Philippine financial sector by defining its basic principles, working on the financial tax structure, taking charge of the agenda and fixing responsibility for its advancement.

USAID told EMERGE this task may no longer be implemented due to lack of funds; however, in the next quarter EMERGE will submit the TOR for USAID review and hopefully approval. BSP Governor Amando M. Tetangco, Jr., Bankers Association of the Philippines (BAP) Executive Director Leonilo G. Coronel and PDEX President & COO Cesar B. Crisol have all written letters to EMERGE requesting the TA to finish the work begun in CMRA1.

Task 4.1.1.3b Policy Review of Financial Sector Taxation

The Financial Sector Taxation study team headed by Atty. Gruba completed its work in this quarter. After presenting the draft final report to the Tax Concerns Taskforce (TCT) of the CMDC, they incorporated the comments received into their report. An important result of this

study is the identification of a few sources of tax arbitrage as significant tax-related distortions in the capital sector.

EMERGE met with CMDC/FINEX, its main counterpart for this task, on the follow-on activity of this diagnostic assessment. EMERGE informed FINEX that EMERGE might not be able to implement the planned second phase of this activity due to lack of funds, as a result of a USAID decision to reduce the EMERGE budget for TA. EMERGE agrees with CMDC that it is very important. There is widespread support for the reforms; although someone needs to help the Council identify and analyze the options. EMERGE and CMDC/FINEX agreed to have the final study presented to CMDC officials chaired by the Secretary of Finance.

This briefing is scheduled in the next monthly meeting of the CMDC. Next quarter, EMERGE will decide whether or not it will submit a follow-on activity to USAID for its consideration based on the response of the Secretary of Finance and the other members of CMDC.

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

There was no activity in pursuit of this task in this quarter. EMERGE did not pursue and does not plan to pursue any further discussions with FSF members on this task in the next quarter, in compliance with USAID's 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

There was no activity in pursuit of this task in this quarter. EMERGE did not pursue and does not plan to pursue any further discussions with SEC members on this task in the next quarter, in compliance with USAID's 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

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 PDIC Executive Vice President Mel Villegas endorsed the TOR of the TA activity for the Commission and submitted a list of possible consultants who could implement the activity.

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

Upon the invitation of Director Victorino Dimagiba of the Bureau of Trade Relations and Consumer Protection (BTRCP), BSP Deputy Governor Nestor Espenilla and EMERGE attended the monthly meeting of the Real Estate Council of the Philippines (RESCOP) in May. Ramon briefed the members of RESCOP about the EMERGE TA provided to DepGov Espenilla by EMERGE consultant, Mr. Mark Bates. The Council was highly appreciative of the report including the draft action plan. The members of the Council supported the holding of an orientation workshop of stakeholders, which was called for in Bates's action plan. Director Dimagiba comprised an ad hoc group to plan for the workshop, which is tentatively scheduled in July, and asked Ramon to be a member. Several meetings were held to prepare for the

orientation. The workshop will take up three areas: valuation standards, education/accreditation of appraisers, and regulatory reform.

The orientation workshop will be conducted in the next quarter. This will validate and improve the action plan for reforms in the real estate appraisal industry.

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

Paul McNeclis had no scheduled trip to Manila in this quarter. He plans to make his third of four trips in July. While away, the BSP staff with whom he is working to estimate the country's output gap continue to do their work and are in touch with him for any guidance they need.

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

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

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.

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

There was no activity in pursuit of this task in this quarter. EMERGE did not pursue and does not plan to pursue any further discussions with BSP members on this task in the next quarter, in compliance with USAID's 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 4.2.1.1 TA to develop local government unit (LGU) financing (formerly Task 3.3.1.1)

This quarter EMERGE helped MDFO conduct a workshop to present the PROLEND facility and the PROLEND policy menu to LGU officials to elicit their comments for improvements. The workshop was attended by governors, vice-governors, provincial treasurers, budget officers and accountants. The draft PROLEND Manual was revised to incorporate the feedback received.

At the request of MDFO, EMERGE consultants made a comparative assessment of the loan terms of government financing institution to LGUs and the PROLEND loan terms. The information and the revised PROLEND Manual were submitted to the MDFO for review and approval at the MDFO Policy Governing Board (PGB) Meeting on May 25, 2006.

The MDFO Board approved the manual with minor changes, but the consultants were requested to provide inputs on the interest rate setting formula of private and government banks as well as a template ranking the policy reforms activities by level of difficulty. The team re-drafted the MDFO PROLEND manual based on MDFO PGB comments.

EMERGE consultants met with World Bank consultants to discuss harmonizing the interest rate policy for MDFO lending instruments. The meeting was conducted upon at the request of DOF Undersecretary and MDFO PGB Chairman Roberto Tan. The results of the meeting were discussed with MDFO Executive Director Helena Habulan, including a policy reform difficulty matrix with loan amount ceilings designed by the consultants, which had also been requested by the MDFO PGB.

Based on the outcome of both meetings, the consultants finalized their report in anticipation of the next MDFO PGB Meeting, which will take place in July 2006. This task should be completed in the next quarter.

As to the suggestions for improving the EMERGE Work Plan made by TIERG/EMERGE Policy Advisory Committee (PAC) members Nitz Amatong, Monetary Board Member (MBM), and Romulo Neri, NEDA Director General and Socio-Economic Secretary, on setting up a mechanism to screen LGU fund raising activities, similar to the NEDA-ICC for national government public investments, and assessing how LGUs fared after issuing bonds or borrowing from financial institutions, planned activities in this quarter were dropped after USAID's request that EMERGE not implement those tasks in the banking and capital markets sector not already started, due to the proposed reduction in its TA budget.

Task 4.2.1.2 TA to develop the rural and micro finance markets

In this quarter, Dr. Mario Lamberte completed and presented his evaluation report of the Credit Policy Improvement Program (CPIP) to EMERGE and USAID staff. He found that the project was highly successful in meeting its objectives. The Consultant also presented his report to the National Credit Council (NCC) Secretariat, including DOF Usec Beltran, NCC Director Almario, Director Habitan and the rest of the NCC staff. The participants provided comments on the report, and Dr. Lamberte completed a final draft on May 29.

With the approval of USAID, EMERGE recruited Dr. Lamberte as its Microfinance Task Designer and Manager. Next quarter, EMERGE expects to design its support to the NCC as well as to other agencies in SME and micro enterprise finance.

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)

There was no activity in pursuit of this task in this quarter. EMERGE does not plan to take up this task with PDEX officials any more, in compliance with USAID's 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

RO 2.1 PACT proposal on Analysis of and Consensus-Building on Trade Negotiation Issues for U-ACT. 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 for Tourism, Agro-Based Products, IT in East Asia and Textile and Apparel. The draft Grant Agreement was sent to the DLSU Office of the Vice President, Dr. Carmelita Quebengco, for her signature on June 28.

Task 1.1.1.5 Integrated System of Motor Vehicle Registration, Land Public Transport Franchising, Insurance and Taxation. USAID approval to award a Fixed Obligation Grant (FOG) to the Asian Institute of Management's Scientific Research Foundation (AIM/SRF) was received by EMERGE in late March. The FOG became effective on April 25, 2006.

Task 1.1.1.5 The 2nd Grant for the Integrated System of Motor Vehicle Registration, Land Public Transport Franchising, Insurance and Taxation. This activity is 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. EMERGE found the design of the FGDs acceptable and at the end of June the budget was being negotiated.

Task 2.2.1.4 Biotech proposals. A series of reviews was conducted on the following biotech proposals during the quarter. Below is a status of the proposal review as of end of the June:

- a) Field Testing of Transgenic Papaya with Delayed Ripening Trait toward Commercialization. The scientist proponent of the proposed activity, Dr. Evelyn Mae Tecson, was requested to update EMERGE on the status of compliance to NCBP and BPI requirements before EMERGE could consider funding the proposal.
- b) Accelerating the Development and Commercialization of Papaya Ringspot Virus-Resistant Papayas in the Philippines. Similar to 1), the proponent, Dr. Desiree Hautea, was requested to update EMERGE on the status of compliance to NCBP before EMERGE could consider funding the proposal.
- c) New Fruit and Shoot Borer-Resistant Eggplant Varieties for the Philippines. The proponent, Dr. Desiree Hautea was requested to meet with the regulators of NCBP, and secure the requirements needed to start the testing of the eggplant variety.

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. The technical and cost proposals were being negotiated as of end of June.

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

Fiscal Sustainability

Task 1.1.1.8 BIR Training on the Philippine Financial Reporting Standards (PFRS). The vendor selected to develop the training modules and conduct the training is SGV & Co. 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.

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 entails the fielding of revenue officers to check on the tax compliance of business establishments nationwide. USAID approved the activity on May 14, and the PO was issued to the selected vendor, the College of Computer Studies and Engineering of DLSU, on June 9.

On Trade and Investment

Task 2.1.2.3 Compliance to Kyoto Convention. EMERGE received USAID approval of this activity on May 22. A Purchase Order was issued to the selected vendor, Parayno Consulting Services, and work started on June 19, 2006.

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. During the quarter, the TOR for the whole technical package, and a sub-TOR for the 1st phase of developing the specifications for the portal was finalized. A consultant was selected from among 4 candidates. Cecille helped in providing contractual and funding advice within EMERGE and US government procurement regulations as the TOR went through its development stage. She also assisted the BPS team in developing the criteria for selecting the consultant who will design the specifications of the portal, and the specific activities to carry out the objectives of the TOR.

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 the 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.

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 Roadmap into a user friendly print document with a corresponding CD version, and designing the CICT Roadmap website. The packaging should be culled from the technical substance of the Roadmap that the CICT can use to showcase, enhance and promote the Philippine ICT sector's global competitiveness. A PO will be issued to the selected vendor, Think Ideas, Inc. on a staggered basis to fit with CICT's schedule of finalizing the CICT Roadmap, and as costs of production become discernible. The 1st PO will be for the development of the design and a slogan. Succeeding PO s will be for the actual production and layout of the print material. The 1st PO was being negotiated as of end of June.

TASK 4 - SO2 Monitoring, Assessment, Reporting

As reported above under "Administrative Tasks," this position remained vacant during this quarter. EMERGE expects to fill it with another candidate in the coming quarter.

TASK 5 - Public Information and Consultations

During this quarter the Public Information Manager drafted the following success stories for USAID use:

- the EMERGE technical assistance (TA) to DOF in drafting Implementing Rules and Regulations for the Lateral Attrition Act;
- the EMERGE TA on the development of the Free and Open Source Software (FOSS) kit, which is being distributed to all community e-centers in the country and in the iSchools' program participants;
- EMERGE assistance in setting up a Community e-Center in Sogod, Cebu, documenting the effect of the CeC on school teachers and students.

He assisted TIERG partners manage a press conference at the request of the Export Development Council and started gathering information and conducting interviews for the following success stories:

- the establishment of infrastructure projects in the RoRo port in Roxas. Oriental Mindoro which are being implemented as a result of EMERGE TA in the development of RoRo policy programs of the government
- the experiences of participants in the WTO online training program of the Department of Trade and Industry; a series of interviews were conducted from government and non-government participants on how the program help them in their current work and activities;
- the EMERGE TA in the development of a community e-center in Kiangan Ifugao
- the reduction of telecom rates due to the deregulation of VOIP business partially as a result of the EMERGE TA on the issuance of a Memorandum Circular of the National Telecommunications Commission declaring VOIP as a value-added service that can be offered as well by non-telco companies.
- EMERGE TA in the development of the BIR ONETTT program.

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.