



QUARTERLY PERFORMANCE REPORT

Contractor: CARANA Corp./Nathan Associates Inc.

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

Reporting Period: July 1 to September 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 September 30, 2006, was \$5,335,877.

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 third quarter of 2006 EMERGE was to submit the quarterly report for the preceding quarter by July 30. It was to support another Policy Advisory Committee (PAC) meeting in August or September 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 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 (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

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

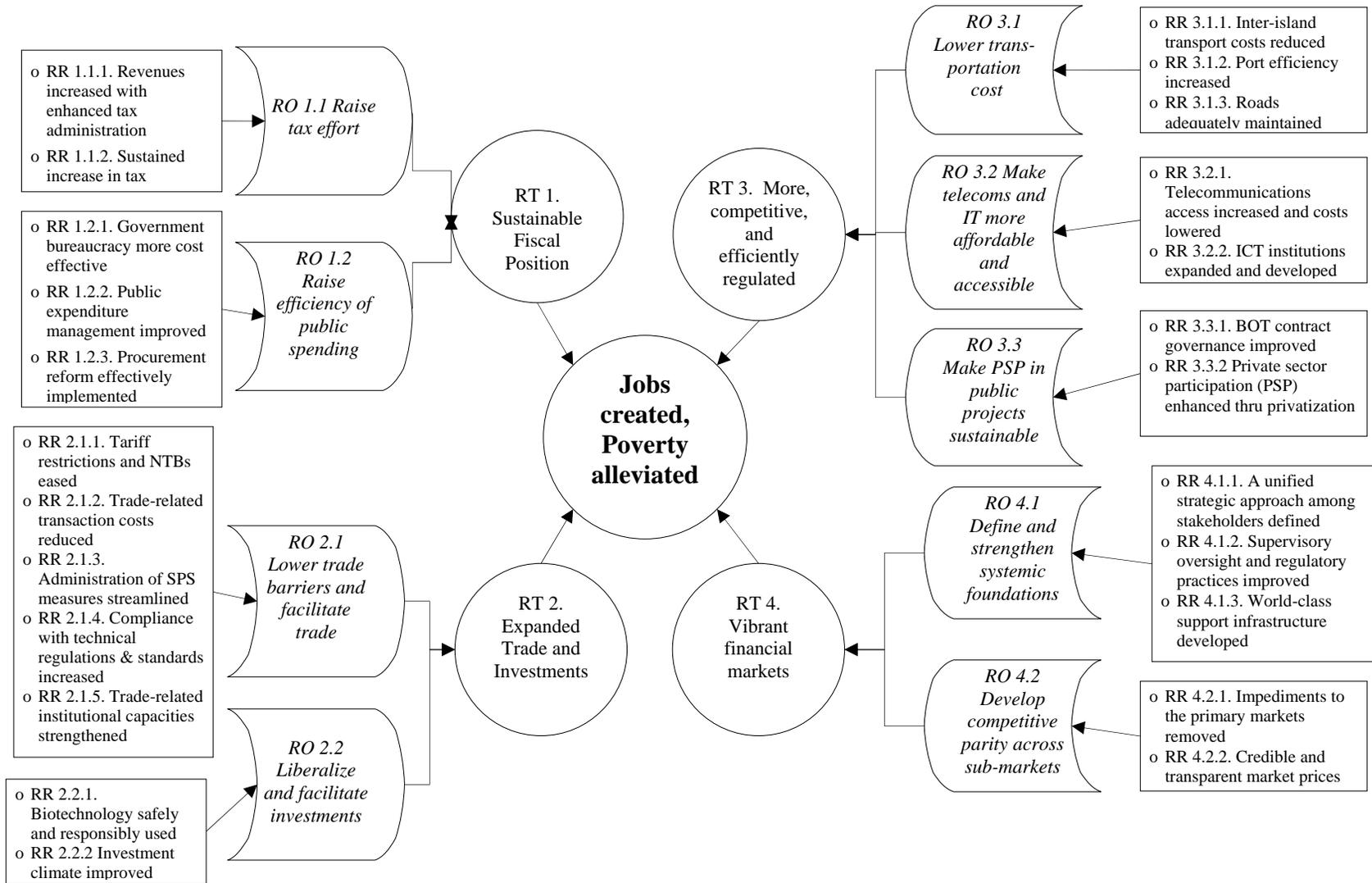


Table 1. EMERGE 2006 Technical Assistance Tasks

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)
	1.2 Raise the efficiency of public spending	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
		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
	RO 2.2 Liberalize and facilitate investments	RR 2.1.5 Trade-related institutional capacities strengthened	2.1.5.1 Philippine global trade e-learning program
		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
		RR 2.2.2. Investment climate improved	2.2.2.1 Diagnostic assessment of investment climate in priority sectors
			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	4.1.1.1 Assessing saving patterns and behavior in the Philippines	
			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	
			RR 4.1.2 Supervisory oversight and regulatory practices improved	4.1.2.1 TA to the Financial Sector Forum (FSF) to harmonize the supervisory framework of the financial market
				4.1.2.2 TA to the Securities and Exchange Commission (SEC) to enhance the regulation of the securities market
				4.1.2.3 TA to the Philippine Deposit Insurance Corporation (PDIC) to develop its risk management and regulatory capacities
				4.1.2.4 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		

reporting period, and those that are to be started later are noted in Section 4, Performance during the Quarter.

Reform Objective 1.1 Increase tax revenues

Reform Result 1.1.1. Improved tax administration

Task 1.1.1.1 Improved One Time Tax Transactions (ONETT) System

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

The third prototype of the ONETTT application was completed and delivered by E-Konek to the Bureau of Internal Revenue (BIR) in mid-April. The progress of the User Acceptance Test (UAT) was delayed by the heavy workload of the Quality Assurance Department particularly, the Information Systems Group, which is attending to several systems development and enhancement projects such as the e-ITS and e-FPS. 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 was moved to September. The ONETTT project was to be exhibited in the BIR 102nd Anniversary Celebration on August 1.

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. During the last quarter Assistant Commissioner for Internal Revenue (ACIR) James Roldan decided to pursue this task. In addition to the planned logistical support for training BIR staff on the tax ruling process and a seminar for around 300 tax managers, ACIR Roldan asked that the TA 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. ACIR Roldan agreed to work with the EMERGE team to refine the TOR, which we expected to complete and send forward for USAID approval in the next quarter.

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

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

USAID approved the TOR for this task on March 20, 2006. The Ramon V. del Rosario Center for Corporate Social Responsibility (RVR) Hills Governance Program of the Asian Institute of Management (AIM) was awarded a grant to implement this task with BIR, Land Transportation Office (LTO), Land Transportation and Regulatory Franchising Board (LTFRB), and Insurance Commission (IC). The work aims to analyze and streamline the motor vehicle registration and land public transport franchising processes, and 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. This task was expected to be completed during this reporting period.

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*

The EMERGE team met with ACIR Merlinda Ordoyo, head of the Large Taxpayer Serviced (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. At the end of the last quarter EMERGE was still looking for a qualified consultant for this specialized task.

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

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

The TOR for improving the Tax Compliance & Verification Drive (TCVD) Project was submitted to USAID for review and approval the last week of April and was approved by USAID on May 17. The project is to be implemented over a period of seven months, starting in June 2006 and ending in December. A BIR counterpart project task force to work with the DLSU project team was formally created by a BIR Revenue Special Order.

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

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

SGV was selected and contracted as consultants for the TA on upgrading tax accounting practices of BIR to IFRS. 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 first two sessions were held in May and June 2006 and they were to continue during the present reporting period.

Reform Result 1.1.2. Sustained increase in tax collection

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

This task was completed in November 2005.

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

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

This task was completed in June 2005.

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

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

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

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

The EMERGE team mapped the second wave for PMS. Its components will be (a) PMS for all the major offices of BIR, (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 was to be sought and implementation begun in the next quarter.

Reform Objective 1.2 Raise the efficiency of public spending

Reform Result 1.2.1. Government bureaucracy more cost effective

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

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

By the end of the last quarter, the Development Academy of the Philippines (DAP) had submitted nine sector profiles to DBM and EMERGE, which were awaiting the submission of about 18 sector/subsector profiles, while 58 government agencies had submitted their rationalization plans to DBM, 9 from department/ agency levels and 49 from other executive offices and GOCCs. 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.

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 wished to acquire more training to improve their capability in this area. DBM Undersecretary Pascua requested training for DBM personnel on program assessment and evaluation for the purpose of preparing

an annual Budget Strategy Paper (BSP), which is seen as a potent tool for ensuring the effectiveness and sustainability of development projects. Subsequently, however, this task 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 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 a U.S. consultant to help the DBM learn about the Performance Assessment and Review Tool (PART) used by the US Government Office of Management and Budget (OMB) to assess the performance of government units. The TOR for this TA was drafted in April 2005, but it was postponed to early 2006 at the request of DBM Usec Laura Pascua, because the DBM staff was busy with 2006 budget preparation and the government restructuring program. Usec 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. 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. Implementation of this task was being planned for October 2006.

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

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

The EMERGE team hired Mr. Jem Armovit to work on a model to predict cash inflows for DBM. It is needed to allow DBM to issue notices of cash allotments quarterly instead of - monthly. His engagement was completed in September 2005. It introduced a methodology for forecasting revenues collected by the BIR and the Bureau of Customs (BOC), together making up about 99% of tax revenues and about 87% of total national government revenues. DBM Undersecretary Laura Pascua 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. Usec Pascua also asked that the purchase

of EViews™ software be part of that task. Work on the SOW and TOR has been delayed due to Undersecretary Pascua's notice that she wished 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

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.*

At 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.

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 by DBM officials in several meetings with the EMERGE team, 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 will be 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. EMERGE expected to start this task in the next quarter.

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 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.

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 approved by the USAID in May 2006. EMERGE met with the Parayno Consulting Inc., the vendor for the purchase order (PO), and discussed the terms of the PO. Implementation was expected to be completed by August 2006.

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

During the last quarter 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.

Reform Result 2.1.3. Administration of SPS measures streamlined

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

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

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

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

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

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.

EMERGE finalized the TOR for this task in May 2006. 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 the last quarter EMERGE was reviewing the proposed budget of the Caesar Virata Associate (CVAI), Inc., the proposed vendor. The TOR was expected to be approved by USAID early in the 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 Mottomull of the Bureau of Products and Standards (BPS), the Export Development Council (EDC), PhilExport, and the Philippine Chamber of Commerce and Industry (PCCI). The portal is to be a web-based facility that will host the technical regulations and product standards of the Philippines and other WTO member countries to improve the access of Philippine exporters to the global market by increasing their compliance with these requirements. Similarly, by complying with Philippine standards and regulations, the country's importers will be assured entry for their imported products and thereby reduce their business transaction costs. The implementation of the TA is planned for three phases: Phase 1- specification of the functional and system design of the S&C portal; Phase 2- development and establishment of the portal; Phase 3- institutional arrangements to sustain and enhance it.

In June, the BPS started work on securing the funding for the hardware component of the portal. Dir. Jesus Mottomull wrote the EDC to assist the BPS 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 expected to 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.

<i>Reform Result 2.1.5. Trade-related institutional capacities strengthened</i>

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.*

As of June 30, 2006, the program had 421 active participants, 5.2% higher than the original target of 400 participants. Overall, the program had enrolled a total of 545 scholars. However, 45 of them had been inactive since their enrollment while 79 had asked to be de-listed from the program. Of the 421 active participants, 67% were from participating government agencies and the remaining 33% were from the academe and civil society. A majority of the participants from the government held technical and managerial positions. Those from civil society groups held executive or technical positions, including education and advocacy work, while those from the academe were members of faculty from economics departments.

Five on-line courses (2 introductory and 3 core courses) had been implemented by the end of June 2006. 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 were fast catching up with course requirements.

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 last quarter, EMERGE coordinated with the IATP Secretariat on 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.

Reform Objective 2.2 Liberalize and Facilitate Investments

Reform Result 2.2.1 Agriculture biotechnology safely and responsibly used

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

This task was completed during the first quarter of 2005.

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

During the last three quarters of 2005, the draft Bureau of Food and Drugs (BFAD) guidelines on the labeling of processed foods containing GMOs were languishing under review by the Policy Division of the Department of Health (DoH) for final approval. 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 could issue them. So, during the last quarter, BFAD Director Leticia Gutierrez ordered the technical and legal review of the proposed guidelines on the labeling of processed foods containing GMOs for the purpose of issuing the guidelines in the form of a BFAD circular. However, BFAD lawyers recommended that, in light of the EO 514 on the national biosafety framework, which President Arroyo issued on March 17, 2006, BFAD should coordinate with the National Committee on Biosafety of the Philippines (NCBP) on biosafety matters such as the proposed guidelines. Towards the end of the quarter, BFAD endorsed to DOH, which is a member of the NCBP, the proposed guidelines in compliance with the administrative procedures of the EO. It also published on its website the proposed guidelines to solicit comments from the general public. The Secretary of Health was expected to issue an Administrative Order enabling the guidelines in this 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) ISAAA submitted the results of a nationwide survey on the acceptability of the 80-20 bag-in-a-bag insect resistance management (IRM) strategy for Bt corn, conducted by the consultant team and DA. DA used survey findings to update and strengthen science-based IRM for Bt corn, as contained in Memorandum Circular (MC) No.8, dated 14 Dec 05 and signed by DA Secretary Domingo Panganiban. To implement the MC, Special Order No.7 was issued on 3 Jan 06, creating the Insect Resistance Management Advisory Team (IRMAT), which will serve as the DA scientific and technical advisory body on IRM matters.

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

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

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

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

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

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, 2005, by President Arroyo of Presidential Proclamation No. 861, declaring the first week of July 2005 as “National Biotech Week,” and the consultant team helped the DA prepare for and conduct it. Highlights of the week-long celebration include the following:

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

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

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

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

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

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

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

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

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

A purchase order (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. The 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

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. During the last 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 previous 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 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. In this quarter EMERGE expected to continue to evaluate the proposals and identify the activities that can be implemented within the project life of EMERGE and submit the TORs of these activities to USAID for approval.

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

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

Type of Activities	Trainings/Workshops/Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
	Biosafety Seminar for the Southern Tagalog Region	Biosafety Seminar for LGUs	12-Oct-05	9	Palawan	72	Local government officials and employees, farmers, local community
	Seminar-Workshop on IRM Implementation, Monitoring and Reporting with the Regional Crop Protection Centers (RCPCs)	IRM & Field Testing	13 to 14 October 2005	17	Palawan	39	Regional crop protection centers, government regulators and policymakers, technology developers, scientists, academe
	Seminar-Workshop on the Delayed Ripening Papaya Project	Guidelines & Protocol Development	8-Nov-05	5	BPI Manila	32	Government regulators and policymakers, technology developers, scientists
	Biosafety Seminar for the Ifugao Province	Biosafety Seminar for LGUs	24-Nov-05	8	Isabela, Ifugao	304	Local government officials and employees, farmers, academe, local community
	Technical Working Group Meeting of the IRM Regulators & Scientists for MC17 Revision	Guidelines & Protocol Development	12-Dec-05	5	BPI Manila	23	Government regulators and policymakers, technology developers, scientists
	Biosafety Seminar for Sablayan, Mindoro Occidental	Biosafety Seminar for LGUs	15-Dec-05	9	Sablayan, Mindoro Occ	156	Local government officials and employees, farmers, local community
	Roundtable Discussion on the Role of the Proposed IRM Advisory Team (IRMAT)	Guidelines & Protocol Development	3-Feb-06	4	BPI Manila	27	Government regulators and policymakers, technology developers, scientists
	First Technical Meeting of the IRMAT on Finalization of the IRM Forms	Guidelines & Protocol Development	13-Feb-06	5	NAFC, DA	21	Government regulators and policymakers, technology developers, scientists
	Seminar-Workshop on Biosafety & Empowering LGU for Central Luzon	Biosafety Seminar for LGUs	16 to 17 March 2006	18	Subic	71	Local government officials and employees, farmers, local community
	Seminar-Workshop on the Safe Conduct of Field Tests and Finalization of the Field Test Guidelines	IRM & Field Testing	27 to 29 March 2006	17	Baguio	61	Government regulators and policymakers, technology developers, scientists
	Seminar-Workshop on Biosafety & Economic Opportunities for Mindoro Occidental	Biosafety Seminar for LGUs	26 to 27 April 2006	17	San Jose, Mind Occ.	142	Local government officials and employees, farmers, businessmen, local community

Type of Activities	Trainings/Workshops/Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
	Technical Meeting of DA and BFAD Regulators on GM Food Safety	Guidelines & Protocol Development	2-May-06	4	Richmonde Hotel, Ortigas	44	Government regulators and policymakers, technology developers, scientists
	Training-Workshop on Adventitious Presence for Government Regulators and Scientists	Training/WS for STRP & Biotech Teams	12-May-06	5	BPI Manila	24	Government regulators and policymakers, technology developers, scientists
	Technical Meeting of DA and BFAD Regulators on Identity Preservation (IP)	Guidelines & Protocol Development	12-May-06	4	BPI Manila	16	Government regulators and policymakers, technology developers, scientists
	Second Technical Meeting of the IRMAT on the IRM Technical Studies	Guidelines & Protocol Development	1-Jun-06	4	BPI Manila	26	Government regulators and policymakers, technology developers, scientists
Information Education and Communication	2005 Gawad Galing Biotech Journalism Launching	Seminar/WS for Academe/Media	8-Jun-05	5	Annabel's, Quezon City	36	Media people
	Roundtable Discussion on Agri-Biotechnology for the Mindanao Business Council	RTD / FGD /Public Sem	14-Jun-05	6	Davao	75	Local businessmen, NGOs
	Public Seminar on Agri-Biotechnology for Luzon-Based Mayors	RTD / FGD /Public Sem	15-Jun-05	4	Annabel's, Quezon City	32	Local executives
	Public Seminar on Health Biotechnology for Medical Doctors	RTD / FGD /Public Sem	21-Jun-05	5	Annabel's, Quezon City	62	Medical doctors
	Seminar-Workshop for Mindanao-Based Academe and Media	Seminar/WS for Academe/Media	23 June 2005	6	Davao	77	Media people, academe
	2005 National Biotech Week Launch and Forum	RTD / FGD /Public Sem	1-Jul-05	4	BSWM-DA	318	Government regulators and policymakers, technology developers, scientists, academe, media, NGOs, general public
	Public Seminar on Biotech Shopping in Celebration of the 2005 National Biotech Week	RTD / FGD /Public Sem	1-Jul-05	5	BSWM-DA	453	Government regulators and policymakers, technology developers, scientists, academe, media, NGOs, general public

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

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

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

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

Reform Result 2.2.2 Investment climate improved

Task 2.2.2.1 Diagnostic assessment of Investment Climate in priority sectors

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

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 expects to work on the details of this task and prepare the TOR when the credit bureau law is enacted by the Philippine Congress. With the hiring of Dr. Mario Lamberte as the Microfinance Advisor, EMERGE planned to focus on helping to operationalize the credit bureau in 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

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

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

advocacies with like minded reform groups working for a better Philippine investment climate. The activity got underway in March 2006.

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 drafted a TOR 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 would assist at least six state universities and 5 research centers set up IP policies and technology licensing offices (TLOs). The second component is a training program on IPR for the regional officials of the Department of Trade and Industry (DTI). The activity aims to involve business councilors of DTI in the region in the IP asset commercialization program. IP assets are important sources of competitiveness, and need to be protected. IPO has no offices in the regions and is cooperating with DTI Regional Operations to facilitate applications for IPRs by universities and research centers in the regions. During this quarter, EMERGE expected to finalize the TOR, 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

This task is in response to NEDA Director General Romulo Neri's desire for EMERGE to help speed up the process of providing negotiable land ownership documents that could be used as collateral for business loans and a request of Department of the Environment and Natural Resources (DENR) Undersecretary M. Gerochi and Land Management Bureau (LMB) Director E. Tiamson for EMERGE TA to help LMB accelerate land titling in the country. The initial TA activity identified in several meetings was the design and preparation of building plans for storing survey and related land records for easier access at the regional level. However, EMERGE 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, as required by USAID.

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 local government units (LGUs) and their utilization of mining taxes. EMERGE planned to work on the structure of this TA during this quarter and prepare the TOR. After meeting 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, Ramon 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. EMERGE expected to finalize the TOR and submit it to USAID for approval during this reporting period.

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. EMERGE developed a TOR in response to his request and USAID approved the hiring of Henry Basilio and Rafael Hernandez as consultants for this TA. Henry Basilio and Rafael Hernandez were expected to complete a policy paper on increased competition in the maritime industry in this quarter.

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

EMERGE expected to start work on this task in the 1st quarter of 2006, but it was delayed since Development Bank of the Philippines (DBP) placed priority on the promotion of the RRTS (Task 3.1.1.3), the approval of which was delayed in USAID. EMERGE expected to work with DBP staff

to draft the SOW for this proposed task during the previous quarter. However, funding for this TA was eliminated as part of the USAID reduction of the EMERGE budget.

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

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

A SOW on RORO shipping was drafted for TA to the Development Bank of the Philippines (DBP) on the preparation of an investment folio covering the Road RoRo Terminal System (RRTS) connections on the nautical highway. 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. The TOR and the proposed team composed of Ruperto Alonzo, Gudmund Rognstad, Asar Ashar and Adora Navarro were finally approved by USAID on April 11, 2006.

The RRTS team made their first field visit to Pilar, Sorsogon, Aroroy and Masbate City in Masbate on May 22-27 and another field visit on June 21-23 to the municipalities of Bogo and Daanbantayan in Cebu province. They expected to deliver the draft investment folio in this next quarter, which will be presented to the DBP management for review and comments.

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 seven applications for registration by new VoIP Providers approved by the NTC since the issuance of the Memorandum Circular.

NTC's priority was 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. EMERGE expected to revisit and improve NTC spectrum management policy, rules and regulations in the last quarter of 2006.

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.* 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 significant market power obligations (SMPOs) and on reference interconnection offers (RIOs). With EMERGE assistance, NTC on June 28 formed a technical working group (TWG), composed of key NTC officials and representatives from the private sector, that will formulate a draft policy paper on RIOs. The TWG planned to have its initial meeting the third week of July, and subsequent weekly meetings have been scheduled. The EMERGE team was to provide technical support. The team expected to submit the draft consultative document on Imposition of SMPOs in this quarter.

Task 3.2.1.2c 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 Sarangani, Aleosan in Cotabato, Manolo Fortich LGU and public high school in Bukidnon, Bontoc - Mountain Province General Comprehensive High School in Mountain Province, and Kiangan 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.

For this quarter, the final round of i-schools web board training was planned for the first week of August in Davao City. EMERGE was to purchase a computer that would be turned over to the Aleosan CeC in Cotabato, Mindanao, as a component of LMIP assistance to that eCenter.

EMERGE planned the development of a jobs database in the Manolo Fortich LGU CeC and expected to set up a new CeC Casa San Miguel in San Miguel, Zambales. The Save the Ifugao Terraces Movement (SITMO) CeC in Kiangan will be launched on July 27-28. EMERGE is working on the final version of the manual on web development, which the team hoped to turn over to the Kiangan CeC during the scheduled launch.

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 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.

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.

EMERGE submitted its report to the NEDA Infrastructure Committee and BOT Center. A formal presentation to the NEDA Infrastructure Committee was expected during this quarter.

Reform Result 3.3.2 Private sector participation enhanced thru privatization

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

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

Task 3.3.2.1b Inventory of government assets for privatization.

At the request of DOF Undersecretary Jay Singson, EMERGE prepared two draft TORs for (a) the preparation of an inventory of government assets for privatization and (b) assistance for the privatization of specific government assets. The TOR for an asset inventory has been delayed due to a fruitless search for suitable consultants. The DOF Privatization Office (PO) and EMERGE agreed to have a two-stage process for this task. The first stage will consist of establishing a comprehensive data base inventory of government assets to be privatized, while the guidelines for privatization shall be prepared during the second stage. EMERGE drafted the TOR for the first stage. At the end of June 2006 DOF PO was again reviewing CVs of proposed consultants and we expected to proceed in this quarter.

Task 3.3.2.1c Privatization of certain government assets.

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

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

Maynilad: This project is to sell the subscription rights to acquire 84% of Maynilad. MWSS has the right to acquire 84% of Maynilad by conversion of concession fees into equity pursuant to a court sanctioned rehabilitation plan. The sale is complicated by the fact that each private lender has the right to veto the sale to any party under the rehabilitation plan. This could allow any lender or vulture investor of debt to attempt to dictate the terms of sale to that lender's advantage. Under the rehabilitation plan, Suez will reduce its ownership from 40% to 16% but has continued to insist that it has the rights of a 40% shareholder (i.e. that it can veto the business plan, capital expenditure to any item in the articles of Incorporation). All of the potential bidders have refused to accept that Suez should retain extraordinary powers as a shareholder. This issue has been the subject of discussion with Suez in many meetings since the beginning of the year and will likely be resolved by the Rehabilitation Court, unless Suez agrees to sell its shares to the winning bidder.

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

Nonoc Mines: This project is to restructure \$300 million of debt held by the Privatization and Management Office (PMO) in respect of a 1996 sale of the Nonoc Mine by PMO predecessor Asset Privatization Trust (APT) to Philnico. Only \$1.25 million has been paid on the loan. In 2003 PMO declared a default and sought to rescind the sale. Philnico obtained a restraining order from the Makati Regional Trial Court asserting it was entitled to \$60 million of compensation for supposed investment in the mine. Jinchuan Group, the largest Nickel producer in China is in negotiations with DOF and Philnico to settle the debt, lift the restraining order and allow Jinchuan to invest approximately \$9000 million to rehabilitate the mine and processing facility.

Performance Milestones Achieved: *The DOF Privatization Office, together with the Natural Resources and Mine Development Corporation (NRMD), 1) completed extensive valuation of the Nonoc mine and the ore*

body to modify and validate a detailed financial model to determine the value of the mine; 2) developed and agreed on a restructuring framework approved by the Privatization Council that would sell the Government's interest for \$45 million of cash to be used to defease the \$300 million obligation with additional consideration paid over time; 3) agreed with Jinchuan Group to a structure where Jinchuan could control the mine and processing through an FTAA revenue sharing structure; and 4) signed an MOU between DOF and Jinchuan setting forth the agreements to date.

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

Performance Milestones Achieved: *The DOF PO and the Privatization Management Office (PMO) 1) hired PriceWaterhouseCoopers (PWC) as the Financial Advisor for the Amanah Bank transaction; 2) created a privatization plan for the sale of unissued and issued Amanah Bank shares; and 3) coordinated with various regulatory agencies (BSP and PDIC) on the take-out of ROPOAs from the Bank.*

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. Nestor Espenilla, who is the primary counterpart, requested assistance to institutionalize the consumer finance survey. With the approval by USAID of the TOR, EMERGE hired Dr. Lisa Grace Bersales and Mr. Dennis Mapa, Sr., on March 6, 2006. During the last quarter, the team briefed BSP officials headed by Deputy Gov. Espenilla on their findings on saving patterns, which they estimated using data from the triennial family income and expenditure surveys (FIES) from 1985 to 2003. The consultants recommended that the BSP start a new survey, instead of riding on the Family Income and Expenditure Survey, to institutionalize the gathering of data on consumer finance. The consultants requested a no-cost extension until July 30, 2006, to complete their report.

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

Task 4.1.1.2a Philippine Capital Market Reform Agenda—Core Principles

This task was completed in November 2005.

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

in actively participating in defining the capital market reform agenda, which was expected to begin in early 2006.

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

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

USAID told EMERGE this task may no longer be implemented due to lack of funds; however, EMERGE is still considering whether to submit the TOR for USAID review and possible 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 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. The Financial Sector Taxation study team headed by Atty. Gruba completed its work in during the last quarter. The team presented the draft report to the Tax Concerns Taskforce (TCT) of the CMDC and incorporated the comments received into their final report. An important result of this study is the identification of a few sources of tax arbitrage as significant tax-related distortions in the capital sector.

EMERGE met with CMDC/FINEX, its main counterpart for this task, on the follow-on activity of this diagnostic assessment. EMERGE 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 agreed with CMDC, however, 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, which was scheduled in the next monthly meeting of the CMDC. During this reporting period, EMERGE was to 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

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.

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

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

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

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

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

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

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

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

On instructions from USAID not to initiate the TA task for PDIC due to reduced funding, EMERGE met with Ms. Mel Villegas, PDIC Senior Vice President, to inform her of this decision. Ms. Villegas was disappointed. It was only a week earlier that 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

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 believed, however, that many of the essential reforms are beyond the purview of the BSP, and he began to build a coalition of stakeholders to mobilize the roadmap. In response to DepGov Espenilla's request, EMERGE arranged the meeting during the last quarter 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.

Upon the invitation of Director Dimagiba of BTRCP, BSP DepGov 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 appointed an ad hoc group to plan for the workshop, which was tentatively scheduled for 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 was to be conducted in this quarter. It 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

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. He suggested that the staff start with the open-economy limited participation model used by the Bank of Canada, developed by Scott Hendry, Wai-Ming Ho, and Kevin Moran. McNelis planned another trip to Manila in July 2006 to help identify and build up a model for the BSP. While away, the BSP staff with whom he is working to estimate the country's output gap continue to 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

Insurance Commissioner Evangeline Escobillo confirmed that the automation of the Commission was her most urgent priority. This would involve an audit of the business processes within the Commission and the crafting of a corresponding plan for automating the generation and handling of information within departments of the IC and between the IC and the public/covered institutions. Comm. Escobillo requested that the SOW indicate that the deliverables be completed by May 2006, as the Commission would need the plan to spend its budget for this purpose. Commissioner Escobillo also requested third party consultants to review the completed drafts for (a) risk-based

supervisory framework, (b) uniform chart of accounts and (c) new insurance code. Lastly, there is the request for an awareness campaign (for the public and covered institutions/agents), training workshops (both for IC staff and regulated firms/agents) and in-house monitoring for compliance. EMERGE provided information to the Insurance Commissioner from DBM on how the Commission may tap its internal funds to mobilize a team of experts to design its information system and computerization plan.

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

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

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

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

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

<i>Reform Result 4.1.3 World-class support infrastructure developed</i>

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

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

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

Reform Objective 4.2 Develop competitive parity across sub-markets

Reform Result 4.2.1. Impediments from the primary markets removed

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

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 that quarter. The consultants finalized their report in anticipation of the next MDFO PGB Meeting, which was to take place in July 2006. This task was expected to be completed in this quarter.

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

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

The first specific activity under this task was an evaluation of the Credit Policy Improvement Project (CPIP). Based on the outcome and recommendations of the assessment, EMERGE expected 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. Mario Lamberte completed and presented his evaluation report of the Credit Policy Improvement Program (CPIP) to EMERGE and USAID staff (Task 4.2.1.2a). 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. In this quarter, EMERGE expected to design its support to the NCC as well as to other agencies in SME and micro enterprise finance.

Reform Result 4.2.2. Credible and transparent market prices instilled

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

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. However, EMERGE does not plan to take up this task with PDEX officials any more, in compliance with USAID instructions to EMERGE not to implement some of its 2006 Annual Work Plan tasks in the banking and capital markets sector, due to a reduction of its TA budget.

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

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

The Grants and Special Activities Fund (SAF) Manager developed a grants manual for EMERGE, which was submitted for USAID approval. It was later discovered that the SEGIR/Privatization IQC, under which the EMERGE delivery order was issued, did not authorize its contractors to award grants. As a result, USAID/W had to amend the IQC before EMERGE could be authorized to provide grants. CARANA finally received the amendment to the SEGIR IQC in October 2005 allowing contractors to award grants. EMERGE revised its Grants Manual based on USAID approval of the manual submitted by CARANA and submitted it for USAID/Philippines for review and acceptance on December 8, 2005. It was approved by USAID on February 17, 2006.

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

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

USAID approval was granted for EMERGE to award a Simplified Grant to PACT/DLSU on June 19. A succeeding approval was received from USAID on June 27 allowing the hiring of four (4) remaining technical experts 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.

EMERGE, upon USAID approval on March 20, 2006, awarded a Fixed Obligation Grant (FOG) to

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

AIM solicited a second grant as a supplement to the 1st grant to AIM/SRF for focus group discussions (FGDs) and a workshop to solicit reactions from various sectors on the result of the team's assessment of the processes involved in motor vehicle registration, land public transport franchising and transport sector taxation. 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 last 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 2.2.2.3 Investment Climate Improvement Project

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

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

Through the SAF EMERGE is to be able to fund TA and studies for SO2 objectives and other SOs; conferences, workshops, and short-term training, often as a cost-share; study tours and long-term training; commodity procurements for partner organizations; and procurement of skills and services

from individuals and institutions. The USAID CTO is responsible for approving use of SAF monies, within the PAC's SAF operating guidelines.

Fiscal Sustainability

Task 1.1.1.7 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 checking 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.

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

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

Task 1.2.2.4 Enhancement of the DBM Website and Budget Transparency

This TA to the DBM aims to help it enhance its website by publishing in it logically organized information regarding government infrastructure and development projects (e.g. physical description, budget appropriation, fund releases, status and results). 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

Task 2.1.5.1 WTO e-learning

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

Task 2.1.2.3 Compliance with Revised Kyoto Convention

EMERGE agreed to share the costs of acquiring the services of the Parayno Consulting Group to help prepare the Philippines to be compliant with the Revised Kyoto Convention. Specifically, EMERGE agreed to fund two of the proposed activities in the Parayno proposal, 1) the current situation questionnaire for each of the cited Team of Technical Experts (TTE) together with the corresponding three levels of analysis, and 2) development of the table of Applicability, Compliance and Non-Compliance, Gap Analysis and Recommended strategy for all the standards and recommendations of the Revised Kyoto Convention. PACT/Philexport will cover the professional fees of the experts under the Parayno Consulting Group. EMERGE received USAID approval of this activity on May 22. 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 last quarter, the TOR for the whole technical package, and a sub-TOR for the 1st phase of developing the specifications for the portal were finalized. A consultant was selected from

among 4 candidates. Cecille helped by providing contractual and funding advice about EMERGE and US government procurement regulations as the TOR went through its development stage. She also assisted the BPS team develop 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 PCCI WTO Consultations Aug-Sep 2005

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

RR 2.2.2 Widening of the Localization of the National Export Congress

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

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

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

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.

Conferences, Seminars and Workshops

RR 1.1.1 DOF Finance Planning Workshop 7-8 July 2005

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

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

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

RR 2.1.1 Philippine Franchise Conference 14-17 July 2005

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

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

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

RR 2.2.1 APEC Conference on Biosafety 16-18 Jan 2006

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

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

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

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.

During the previous 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 started gathering information and conducting interviews for the following success stories, expected to be circulated during this quarter:

- 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.

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 July 30. Attempts to schedule another PAC meeting in August or September were unsuccessful due to the busy schedules of its members. It is hoped the next meeting can be held before Christmas.

USAID/OEDG changed its mind about deleting the Banking and Capital Markets Team Leader position and advised EMERGE to proceed with plans to request Contracting Officer approval for its preferred candidate for that position. CARANA Corp. sent a request for approval to USAID/RDO on July 31, 2006, but no response had been received by the end of this quarter.

TASK 1 - Policy Analysis and Technical Assistance

Fiscal Sustainability

Task 1.1.1.1 Improved One Time Tax Transactions (ONETTT) System

The pilot testing of ONET³ scheduled in September did not materialize due to problems encountered by eKonek with the barcode solution and delays in technical, user, and quality assurance tests. Testing delays could also be partly attributed to the heavy workload of BIR staff. It took a while for the vendor to sort through the problem in the barcode solution. The functional and technical testing of the ONET³ prototype was completed with the exception of the barcode solution component. The user test was also finished in the latter part of September and the list of errors, discrepancies, and issues uncovered from testing the application was submitted to eKonek. The ONET³ team of the BIR expects eKonek to submit the final version of the ONET³ application prototype with barcode fixes, on or before October 9. The quality assurance and acceptance test will then follow. The pilot test in Revenue District Office 39 and Register of Deeds in Quezon City has been moved to mid-November.

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

The technical assistance (TA) task for tax rulings was divided into two components. The first consists of streamlining of the tax rulings business processes and strengthening of the monitoring and oversight of tax rulings to avoid legally inconsistent and conflicting rulings. The second component is a review of all the tax rulings issued by the BIR from 2002 to the present, which updates a 2002 DOF review of BIR tax rulings from 1998 to 2001.

Mr. Jene Aliwalas and Mr. Edmund Guamen were contracted to provide expert service for the first component. The task officially kicked off on September 19. The project schedule and working arrangements were finalized. The head of the BIR project task force is ACIR James Roldan, with Atty. Maperoma Cantillep as deputy head. The BIR task force will assist the EMERGE-Tax Rulings Team in accessing pertinent documents, arranging meetings with resource persons in the bureau, and reviewing and signing off on the team's reports and outputs.

There was no word yet from former Finance Undersecretary Cornelio Gison, who chaired the inter-agency committee that undertook the first tax rulings study, as to whether he would accept the consultant position for the rulings review component of the project.

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

The motor vehicle registration and land public transport franchising tracks individually worked on the process documentation and formulation of the reengineered processes for internal efficiency. The findings were supplemented by the results of the stakeholder analysis, data for which were gathered in focus group discussions. Study groups and designated individuals from the Land Transportation Office (LTO) and the Land Transportation Franchising and Regulatory Board (LTFRB) provided counterpart assistance through participation in technical discussions and validation of data and intermediate outputs.

The development of the integrated system for motor vehicle registration, land public transport franchising, taxation, and insurance, necessitated linkage work among the track teams. Four points of integration have been identified: (1) LTO-LTFRB linkage for the establishment of a *colorum* vehicle database; (2) LTFRB- BIR linkage for the establishment of a tax clearance certificate database and its incorporation with the integrated tax system; (3) LTO-Insurance Commission (IC) linkage for the establishment of the compulsory third party liability (CTPL) database; and (4) the maintenance of a unified chart of accounts to simplify the submission and checking of annual reports by transport operators.

Thus far, the following outputs have been submitted: *Diagnostic Report on the Motor Vehicle Registration and Land Public Transport Franchising Processes and Sub-Processes* and *Proposed Systems Improvement Report*. A draft of the recommended integrated process has been prepared. Its final version, which will include a change management plan, draft memoranda of agreement, draft implementing rules and regulations, and draft internal circulars, will be prepared over the coming month.

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

The Center for Operations Research and Management Science of De La Salle University (CORMS-DLSU) won the bidding for the first track of this task, which involves an industry and systems study to select the most cost-effective system of establishing proof of payment of cigarette excise tax. However, the consultant was asked to revise its proposal after Assistant Commissioner Nestor Valeroso, the newly appointed head of the Large Taxpayer Service (LTS), wanted the study to give more attention to the manufacturing process (e.g., material input-output, material losses, and material conversion rates) and the critical manufacturing data, forms/reports, and information systems commonly used by cigarette manufacturers, instead of focusing only on the most cost-effective system of establishing proof of payment. The former could be immediately useful in strengthening the bureau's audit framework, while the latter could not be readily implemented as it requires capital outlay. CORMS-DLSU submitted a revised proposal, which EMERGE reviewed and submitted to BIR for final approval.

Three groups of lawyers expressed interest in the updating and codification of revenue regulations and all other issuances pertaining to cigarette excise tax. However, the task could not be subjected to bidding yet, because the BIR Task Force still has to decide whether to carry out a full blown inventory and review of all the issuances dating back to the 1960s, or just formulate a new revenue regulation. The finalization of scope of work (SOW) and contracting a consultant are hinged on the decision of the task force on this matter.

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

The TCVD project officially started on June 6. A Revenue Special Order was issued by the BIR identifying the individuals who will form the task force that will work with the EMERGE-DLSU project team in designing a more effective TCVD. The task force members represent the BIR offices involved in TCVD, namely the Office of the Deputy Commissioner for Operations, Taxpayers Assistance Service, Information Systems Operations Service, Tax Reform Administration Group, and Revenue District Offices.

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

The project team submitted its first batch of deliverables on September 15. The consultants, together with the BIR-TCVD Task Force, will be working on the institutionalization and implementation of the improved TCVD through amendments in the pertinent Revenue Memorandum Orders (RMO) and the development and installation of an improved TCVD application system.

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

The EMERGE-SGV project team conducted four training sessions from July to September 2006, bringing the total number of sessions conducted to six. Only one session remains to be conducted for the first phase of the task; this session involves the preparation of the training module. The next phase of the TA consists of the training proper of selected BIR revenue officers and the roll-out training program for all of BIR revenue officers. The project is behind schedule by a month due to several postponements requested by the BIR working team, who had to attend to pressing concerns in their respective offices.

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

The EMERGE-PMS project team completed and submitted the required deliverables for the "first wave" of the task on July 30 after requesting a one-month no-cost extension. The extension was necessitated by delays due to the absence of a visible sponsor in the BIR in the early stages of the project, and the difficulties of BIR counterpart staff and officials to meet the project timetable because of the urgency of tasks related to meeting the bureau's collection target.

The "second wave" started in September with a series of meetings with MANCOM and other major stakeholders to firm up the direction of the TA. The EMERGE-PMS team will refine and harmonize the office-level PMS of RRs, RDOs and LTS, and work on a merged PMIS. It will also develop an office-level PMS for all the other major offices in the BIR providing support services. Since there is not enough time for the development of an individual-level PMS to support the implementation of

the Attrition Law, which officially commenced with the promulgation of the Implementing Rules and Regulations in May 30 this year, a hybrid of an office-level PMS and the pre-Attrition Law individual performance evaluation system (PES) will be used in the interim.

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

No additional sector profile was submitted for the third quarter. To date, experts have been contracted for 14 sectors/subsectors, while 4 sectors/subsectors remain unassigned, since the former DBM Secretary did not express preference for any of the nominated experts. Nine of the 14 contracted experts have submitted draft sector profile reports. DAP also submitted documentation reports on the participation of these nine experts in the review of agency rationalization plans. The remaining five contracted experts are still preparing their reports.

The implementation of EO 366 has been very slow. Based on the Implementing Rules and Regulations (IRR) of EO 366, dated 11 May 2005, the concerned departments and agencies of the Executive Branch should have submitted a rationalization plan to DBM six months after the issuance of the IRR, or by November 2005. However, the deadline was not strictly imposed because of the need to manage resistance within the affected sectors. As of September 30, 2006, the overall status of the agency rationalization plans is as follows:

STATUS	Departments	Other Executive Offices/ Agencies	Govt-Owned, Controlled Corporations	TOTAL	
				No.	%
PLANS SUBMITTED TO DBM	13	26	30	69	62%
PLANS NOT YET SUBMITTED TO DBM	8	3	32	43	38%
TOTAL	21	29	62	112	100%

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

The resumes of four prospective consultants, which were forwarded to EMERGE by the CARANA head office, were forwarded to DBM Undersecretary Mario Relampagos. Also submitted to Undersecretary Relampagos was the revised TOR indicating a shorter period of stay by the contractor and an indicative work plan of activities. The task has since been transferred back to the jurisdiction of Undersecretary Pascua, who agreed to consult the directors involved and thereafter inform EMERGE of the desired start date for task.

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

Undersecretary Pascua withheld a formal request for training on the revenue forecasting model previously developed by Mr. Jem Armovit for DBM, pending consultation with the Fiscal Planning Bureau. It was gathered that the training remains necessary, especially since the model would be used in conjunction with other forecasting tools and would allow the Bureau to progress from forecasting monthly to quarterly releases. Since bureau and department work are currently focused on the 2007 Budget deliberations in Congress, it was suggested that the training commence in November 2006.

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

EMERGE received a formal request signed on behalf of DBM Secretary Andaya for this task. With the assistance of Assistant Secretary Mariliza Reyes and other DBM officials, EMERGE undertook bidding procedures and selected Asiagate, Inc. Subsequently, the terms of reference (TOR) were revised to incorporate USAID's suggestion for consultation with TAN and CODE-NGO and reporting on the lump-sum allocations of representatives and senators. The revised TOR was approved by Assistant Secretary Reyes and sent to Asiagate to revise its proposal accordingly.

Expanded Trade and Investment

Task 2.1.1.1 Assessment of the economic impact of trade liberalization

This task was put on hold when the EMERGE budget was cut towards the end of last quarter. Discussions, however, were resumed in August after EMERGE analysis indicated that effective rates of protection have not actually been falling as previously believed, but that there has been a steady stream of tariff increases over the last few years. A meeting on August 18 between EMERGE and some Tariff Commission officials discussed issues that need to be addressed in an impact assessment of the country's trade reforms and approaches that could be used; and a meeting of EMERGE, USAID and GTZ on Sept 19 considered how best to respond to the Tariff Commission's TA request. The latter group agreed to have a donors' roundtable discussion with academe and researchers to define the questions to be addressed by the impact study and possible methodologies to be used. GTZ volunteered to organize the meeting early next quarter.

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

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

Accomplishments during this quarter by the consultant team from the Parayno Consultancy Services include the following: (i) submission to EMERGE of the applicability analysis of the Revised Kyoto Convention (RKC) to the Philippines. EMERGE found the report to have complied with the TOR; (ii) assistance to the private sectors (Philippine Chambers of Commerce and Industry, Ports Users Authority, and the Chamber of Customs Brokers, Inc.), and the Bureau of Customs (BOC) who did their own applicability and gap analyses of the RKC; (iii) completion of the initial draft of the results of the situational and gap analyses of the standards and transitory standards contained in the General Annex and Specific Annex; and (iv) discussion with EMERGE and PhilExport on the recommendations of the RKC study that to be forwarded to the National Competitiveness Summit.

The Parayno team requested a no-cost extension because of the delayed completion of the private sector's and BOC's own analyses of the RKC, which the team has to incorporate in its final report. It expects to submit the final report early next quarter.

Task 2.1.2.4 Revitalized customs audits; Institutionalized super green lane facility (SGL); Enhanced liquidation and billing; and Customs Code updated

No further activities were implemented for this proposed task during this quarter. The BOC has yet to implement the actions needed to make the proposed TA effective. These actions are USAID requirements before the TA can proceed.

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

The TOR for this task was approved by USAID in July, with the Caesar Virata Associates Inc. (CVAI), Inc. as vendor. The purchase order (PO) is expected to be completed in March 2007. The important components of this second phase are (i) the development of interim organizing arrangements leading to the dual agency SPS administration, one for standards setting and development and the other for enforcement; and (ii) the re-engineering of business procedures for enforcing SPS measures. At the beginning of the project, EMERGE discussed with Undersecretary Segfredo Serrano the proposal of Deputy Customs Commissioner Arevalo to pilot the National Single Window program with the DA and the Bureau of Customs on enforcement of the DA SPS regulations at the border. Serrano welcomed the proposal.

The CVAI consultant team started work first week of August. A Technical Committee (TC), created through a Special Order issued by DA Secretary Panganiban, was tasked to work with the team to complete the deliverables. The TC is composed of six DA regulatory agencies: Bureaus of Plant Industry (BPI), Animal Industry (BAI), and Agriculture and Fisheries Products Standards (BAFPS), National Meat Inspections Service (NMIS), Fisheries and Aquatic Resources (BFAR) and the Fertilizer and Pesticide Authority (FPA). Separate meetings with the officials of these agencies were conducted by the SPS team to brief them on the TA, explain their participation and to get their support and commitment to the proposed reforms to be undertaken.

The Technical Committee (TC) met three times this quarter. The organization meeting was held Aug 11. The other two meetings were held Sept 15 and Sept 22. In these meetings, the agencies presented their accreditation processes (Sept 15) and their import permit issuance processes (Sept 22) following the template prepared by the SPS team. The discussions in these meetings highlighted the similarities and differences in the requirements as well as processes of these agencies; and generated baseline information for the streamlining and harmonization of procedures. The SPS team also presented in these meetings their initial draft of the policy statement, the first deliverable of the team.

The SPS team also met with consultants on other related projects in DA to ensure that there is consistency and complementarities in the activities and outputs of the SPS team and those of the other projects. The SPS team leader reported the possible duplication of the EMERGE team's work with that of World Bank and EU TA. EMERGE instructed the SPS team leader to discuss this matter with DA Undersecretary Serrano and ask him to clarify the respective responsibilities of the agency's different donors.

For next quarter, the SPS team is expected to complete their draft reports on the: (i) SPS policy statement; (ii) architecture of border processes; (iii) interim organizational arrangements for the dual agency SPS administration; and (iv) streamlined business procedures.

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

The PO for Phase 1 of this task was approved by USAID in August, with Oliver Malabanan from the College of Computer Sciences, De La Salle University, as the vendor. Phase 1 will cover the

design and specification of the portal, including the estimation of the cost of developing the portal under Phase 2. Part of the documents submitted to USAID to secure the latter's approval of the PO was the letter from the Export Development Council (EDC) expressing funding support for the hardware component of the portal, through the Export Promotion Fund of the Bangko Sentral ng Pilipinas (BSP)

Major activities implemented during the quarter include the following. First, the S&C Project Steering Committee met on Aug 24 to solicit inputs from the various stakeholders of the portal on how their specific needs and requirements can be addressed by the portal. Second, the EMERGE consultant focused his activities on gathering data and information on BPS functions and processes through meetings with BPS Activity Teams (AT) and Working Groups (WG). These data and information were necessary for the assessment of BPS processes and systems with respect to the requirements of the portal. Third, the EMERGE consultant also assisted the BPS in preparing the proposal to the BSP for the hardware acquisition.

A major issue encountered towards the end of the quarter was the overlap in the EMERGE and EU TA on the portal. The EU is also providing TA to BPS, the coverage of which involves a small portion of the features and functionalities of the portal as conceptualized under the EMERGE TA. The problem lies in the fact that BPS has already chosen its supplier for the EU TA. The supplier is SYSTEMA and it will use a product called JOOMLA, which can address all the EU-covered functionalities. While JOOMLA is an open source product, there is no assurance that it can accommodate the features and functionalities of the portal covered under EMERGE, some of which should be custom-made, i.e. design is specific to the needs of BPS.

The options on how to address the overlap were discussed in a meeting of EMERGE and BPS held on Sept 20. Option 1 is to have separate suppliers for EU and EMERGE. These suppliers could be using different technologies thus, posing a problem on incompatibility. Option 2 is to have just one supplier for both EU and EMERGE to avoid technical incompatibility. EMERGE and BPS are unanimous that Option 2 is the better option. However, there are also issues with this option: (i) there is no guarantee that JOOMLA can address the features/functionality required by EMERGE; and (ii) there is no guarantee that the supplier of JOOMLA has the capability to develop the features/functionality required by EMERGE, i.e. expand JOOMLA. Oliver was tasked to discuss these issues with SYSTEMA before a decision on which option to take can be made early next quarter.

For next quarter, the EMERGE consultant will finalize the portal assessment report, the design and specification of the portal, and the cost estimate for Phase 2 of the TA. Phase 1 is expected to be completed by the end of next quarter.

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

As of the end of the quarter, the program has 474 active e-learners, which is 18 percent higher than the original target of 400 participants. The on-line elective courses were implemented this quarter, where the e-learners had the option to take two courses from a range of five courses: trade in agriculture, trade in services, trade facilitation, national legislation implementing international trade rules, protocols pending approval. Several participants, however, opted to take all optional courses, except the last. The e-learners will also be attending the face-to-face workshop of one of the courses they chose, except for the course on protocols pending approval where there will be no face-to-face workshop.

The on-line abridged course for judges started in Sept. A total of 115 court attorneys and judges nominated by the Philippine Judicial Academy were enrolled in the course. The course merges PGTEP Courses 2, 4 and 5 (Introductory Courses, International Trade, and the optional course on National Legislation Implementing International Trade Laws). Of the 115 participants, 53 are presiding judges while 62 are court attorneys. Eighty-one are from Metro Manila, while 34 are from outside Metro Manila.

Preparations for the face-to-face workshops in Sept. and Oct. were also finalized: list of speakers, schedules, and logistics arrangements for the foreign speakers. The face-to-face workshop for services was conducted on Sept 20-21, 2006, with 72 participants. The main resource person was Ms. Shefali Sharma, formerly of the Institute for Agriculture and Trade Policy. Local experts were invited to form a panel on the second day: Ms. Celeste Balatbat of the Philippine Services Coalition, Ms. Ma. Luisa Gigette Imperial of the Bureau of Local Employment, Dr. Avelina dela Rea of the Professional Regulation Commission, and Dr. Rene Ofreneo of the Fair Trade Alliance.

Activities for next quarter include: (i) face-to-face workshops for trade facilitation on Oct 2-3, agriculture on Oct 5-6, and national legislation implementing international trade rules Oct 19-20; (ii) an on-line integrating course is to start Nov 1; and (iii) the final and integrating workshop will be held on Dec 14.

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

The Bureau of Food and Drugs (BFAD) has approved the final draft of the Administrative Order (AO) on the Rules and Regulations on the Registration and Labeling of Processed Foods Derived from Modern Biotechnology, which was drafted in consultation with the stakeholders. The draft has been forwarded to the Department of Health (DOH) for review, approval and signature by the Hon. Secretary of Health Francisco T. Duque.

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

The rules and regulations on identity preservation are still with the Bureau of Food and Drugs (BFAD) for review.

Task 2.2.1.3a Institutional capacity building and information, education and communication (IEC) campaign on modern technology, Phase 1

This TA was completed in July 2006. Please refer to the table above (pp. 18-21) for the list of ICB and IEC activities implemented under this TA.

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

USAID approved on Aug 24 the PO for Phase 2 of the ICB and IEC activities on biotechnology, with the Biotech Coalition of the Philippines (BCP) as vendor. The BCP assisted the DA in the following activities: (i) Seminar-Workshop on Risk Assessment of GM Crops for Commercial Release held in Tagaytay City on 20-22 September with 70 participants composed of government policymakers and regulators, independent scientists and members of the academe, and technology developers both from public research institutions and private companies; (ii) Seminar-workshop biosafety and biocommerce for the Caraga region held on 27-28 September, with participants composed of local government executives, community leaders, and farmer organizations. DA Secretary Domingo Panganiban was the guest of honor and special resource person for this event;

and (iii) meeting of the Board of Judges of the Gawad Galing for Biotech Journalism held on 14 September 2006.

For next quarter, BCP will continue to conduct ICB and IEC activities on biotechnology, some of which are in support of Task 2.2.1.5 below.

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

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

Activities for next quarter include: (i) FSBR eggplant – 2nd backcrossing; bioefficacy testing; insect rearing and mating; NCBP approval of confined field site application; and draft manuscript of the biology of eggplant; (ii) PRSV papaya – confined trial site selection and development; bioefficacy test of advanced events; NCBP certificate of completion of contained trial; and NCBP approval of field site application; (iii) delayed ripening papaya – application for field test and other biosafety requirements; molecular analysis; biochemical and nutritional analysis; and field evaluation.

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

The grant proposal of the ISAAA was approved by USAID late July. For this quarter, the ISAAA consultant team assisted the DA in drafting the updated version of its risk assessment protocols for the commercial propagation of plants derived from modern biotechnology. The draft was presented in a seminar-workshop on Sept 20-22 attended by the various stakeholders. ISAAA is finalizing the protocols based on the comments and suggestions during the workshops. Once finalized, the protocols will be endorsed to the DA Secretary for formal issuance as a memorandum circular. The ISAAA also met with various stakeholders to discuss: (i) the proposals on how to deal with the issue of trace elements of unapproved LL061 GM rice in rice imports from the U.S.; and (ii) the proposed policy guidelines on low-level presence of unapproved GM materials in grain and commodity imports.

Activities for next quarter will include: (i) development of policy briefs on the science-based implementation of the National Biosafety Framework; (ii) final draft of the biotech industry survey questionnaire.

Task 2.2.2.1 Diagnostic assessment on investment climate in priority sectors

The editing of the reports of the study team was completed this quarter. The report will be submitted to the BOI and DTI early next quarter.

Task 2.2.2.2 Improving the business development support services for SMEs

The House has scheduled a discussion on its version of the credit bureau bill when it resumes its session on November 6. It has already finalized the Committee Report with all opposing Congressmen agreeing to the final version. Thus, the sponsors expect the bill to go smoothly during the floor deliberation/debate, but a bicameral conference will be necessary to iron out some differences between the Senate version and House version of the bill. When the bill is finally signed into law, the agency assigned by it to draft its implementing rules and regulations and code of conduct is expected to request EMERGE TA, as well the credit bureau itself (to help make its services more readily available to commercial banks and other lending institutions). The credit bureau will facilitate better access to credit by SMEs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amdesk BOI and ICIP Senior Advisor attended the Philippine Development Forum (PDF) **Infrastructure** Meeting to review the SONA project list in preparation for a larger PDF semester review. ICIP Senior Advisor joined the PDF Infrastructure Core Group meeting called by the World Bank (WB) and Japanese embassy to draft a list of 10 top priority projects and subsequently prepared and circulated the draft project list.

AmCham coordinated with PCCI regarding the **Anti-Red Tape and Corruption Workshop** to be held August 23. AmCham invited other foreign chambers to participate and invited all AmCham members. AmCham wrote DTI Secretary Favila, chairman of presidential Anti-Red Tape Task Force, sharing results of AmCham **Worst Red Tape Survey**. BOC, BIR and Immigration and some LGUs were identified as having most burdensome and costly procedures. AmCham sent a letter to SSS President De la Paz and Quezon City mayor Belmonte re responses in AmCham **Worst Red Tape Survey** pertaining to their jurisdictions. PhilExport urged GRP to address **red tape** and said streamlining, decentralization and automation of GRP frontline services are keys to less red tape.

AmCham/ICIP joined the debate over **fiscal incentives** for investment projects as copies of Senate Ways and Means report to abolish Board of Investments and end income tax holidays appeared in press. A study by UP economics professor Reside alleged widespread “redundancy” of incentives resulting in huge revenue losses. AmCham discussed Sen. Recto’s fiscal incentives bill with automotive, business processing and semiconductor associations, Finance and Trade secretaries. The Joint Foreign Chambers (JFC) released a “Statement on Proposed Senate Ways and Means Committee Reported Bill on the **Rationalization of Fiscal Incentives** entitled ‘The Consolidated Investments and Incentives Code of the Philippines.’” SEIPI issued statement favoring retention of the 6-year income tax holiday (ITH) for electronics and semiconductor industry and 4-year ITH for strategic projects. Amdesk at the Board of Investment (BOI) discussed implications of Recto bill with Carmelray and First Philippine Industrial Park CEOs and with Japan Representative to BOI. ICIP team attended EPRA forum on Rationalization of Fiscal Incentives where UP economists Reside and Medalla presented their reports. BOI reported it will coordinate better with DOF in evaluating and approving projects seeking **tax incentives** and ensure grant of such incentives does not result in unnecessary foregone revenues.

AmCham co-sponsored with ECCP a forum on the Senate bill on Rationalization of Fiscal Incentives, the EVAT 70% cap and the Anti-Smuggling bill.

JFC Statement on **Fiscal Incentives** Rationalization was released to media and covered by major newspapers. Also sent to all senators, key House leaders and economists Habito, Medalla and Reside, Jr., who wrote a reply published in BusinessMirror.

ICIP staff conducted a survey on **fiscal incentives** and Senate rationalization bill, sent to JFC executive directors and all AmCham members requesting response by August 15.

ICIP Senior Advisor attended breakfast organized by Philippine Industrial Estate Association (PHILEA) with House Appropriations Committee chair Salceda (concurrently House Economics Committee chair). SEIPI chairman was present. Topic was **fiscal rationalization**. Salceda assured that he had discussed the issue with President Arroyo who opposes changes in current incentive regime for exporters.

ICIP Senior Advisor joined representatives of other foreign chambers and business associations in meeting with SWMC chairman Recto to discuss his committee report (SB 2411) on **rationalization of fiscal incentives**. Recto gave little indication that he would agree to any changes in the bill.

ICIP Senior Advisor asked Sen Gordon, Euan Marshall (IFC), Mitch Locsin (BPAP), Joel Mari Yu (Cebu Investment Promotion Office) and Georgina Yu (chairman, Zamboanga SEZ) to express concerns over Recto Bill to Malacañang and key senators. Also met with Paul Cooper of PWC who advised Sen Recto on VAT law.

BusinessMirror reported AmCham position against removal of **ITH** for FDI in SB 2411. **CAMPI** expressed concern over SB 2411, saying repeal of EO 226 would also automatically repeal EO 156, also known as the Motor Vehicle Development Program (MVDP). **BPAP** wrote Senator Recto to object to several provisions of SB 2411. DOF Sec Teves suggested some industries might be included in “positive list” to receive fiscal privileges, but Recto disagreed with Teves proposal.

Finance Secretary Teves reported DOF has asked **IFC and WB to provide technical assistance to improve investment fiscal incentive reform proposals**.

LEGCOM Chair organized meeting at AmCham with industry representatives, AmCham Executive Director, WB, IFC, USAID and EMERGE officials to discuss **rationalization of fiscal incentives**. It was pointed out that appearance of DOF support for SB 2411 is creating uncertainty for new and expansion projects re future incentives regime.

ICIP Senior Advisor with ECCPI and Canadian Chamber met with Ateneo and UP economists (including former NEDA director generals Habito and Medalla) who prepared Reside report on **fiscal incentives**.

ICIP Senior Advisor met with Hans Shrader of **IFC Jakarta** office to discuss foreign investment fiscal incentives rationalization bill.

The September AmCham Legislative Committee (LEGCOM) meeting reviewed status of key legislation and discussed issuances of several Executive Orders which appeared to have not been well coordinated within the Executive Branch (E.O. 500-A, 556 and 558).

Amdesk BOI held discussions with head of **Investment Promotions Group** regarding status of CDC incentives and amnesty bills, fiscal incentives bill and FDI Negative List.

AmCham VP and Ford president Co, ED, Amdesk BOI and ICIP Senior Advisor called on **Senate President Villar** to discuss ICIP legislative priorities.

A JFC Letter to NEDA DG Neri on the review of the **Foreign Investment Negative List (FINL)** was released to media and sent to Congressional leaders. Letter was lead front page story in Business World and Business Mirror and also covered by major broadsheets.

The AmCham Executive Director and ICIP Senior Advisor attended a JFC **Retirement** Sector Committee meeting. They decided to recommend to GRP land ownership for foreign retirees and practice of foreign doctors.

In letter to President Arroyo, Chamber of Mines of Philippines postponed October 3-5 Philippine Mining Conference, because of "seeming policy shift from active promotion...to cautious re-consideration of policy reforms...[which] has led to stymied investment inflows affecting ...our competitiveness as a mining destination, and wait-and-see attitude once again from our foreign investors." Philippine Star reported **AmCham and PCCI** support for Chamber of Mines of Philippines in **urging GRP not to flip-flop on mining** and other policy issues.

The PEP co-chair attended League of Corporate Foundations (LCF) annual CEO luncheon where roadmap to improve public education was presented. An important element for CSR support will be **"Improving English Proficiency of Teachers."** Speaking at the lunch, Mirant Philippines Chairman Leviste urged foundations to support English study and pledged more support of Mirant Foundation for English. PEP co-chair spoke with LCF chair Garchitorena promising to develop a **computer lab English training software proposal** to train teachers at existing school labs.

PEP sent a revised proposal to USAID for **English training software** in 10 public and private colleges in Mindanao and continued discussions with AIG, Citibank and UPS re support for training at 15 more colleges and high schools. Arrangements to install software at schools in Cagayan de Oro, Capiz and Sagay, Negros Occidental under a \$10,000 grant to PEP from Philip Morris were finalized.

The PEP project submitted a proposal for 2 **computer English training centers (CELCS)** to the USAID GEM Project for colleges in Davao and Cotabato City, revised a proposal for \$50,000 to the UPS Foundation for 3 centers in Metro Manila colleges, and revised a proposal for \$100,000 to fund six CELCS for teachers to the CEO of a large AmCham member company.

In July 2006 AmCham/ICIP also met with or organized:

- Provided ICIP Advocacy Plan to **Executive Secretary Ermita**;
- **DTI Sec Favila** on ICIP advocacy plan, October FDI workshop, Recto bill on fiscal rationalization, red tape, and foreign investment regime.
- **NEDA Deputy DG Songco** on ICIP advocacy reforms; sent letter requesting foreign chambers be consulted during formulation of 7th Regular Negative List;
- **JFC monthly meeting** covered long list of topics, approved statement on Rationalization of Fiscal Incentives, letter to NEDA DG Neri re Negative List, letters to Sec Teves re Input Cap and BOC overtime charges to airlines;
- Attended **AIM** State of Philippine Competitiveness National Conference with AIM President Estrada, AIM Policy Center Dr. Macaranas, DTI Usec Aquino;
- attended **PCCI** debate on "Liberalization of **Constitutional Restrictions of FDI**" Side arguing for liberalization (led by Dr. Villegas) made more persuasive arguments than that defending status quo (led by former NEDA DG Monsod);
- Discussed **US-RP bilateral trade policy** with PCCI president Dee who claims USTR willing to consider sector-by-sector (rather than comprehensive) FTA negotiation approach. Dee wants to identify 50 tariff lines to offer US and is seeking to persuade GRP to decide to move forward. AmCham suggested a **BIT** would be a good step;

- ICIP Senior Advisor joined Sen. Majority Leader Pangilinan in addressing **RP-US relations** before the Makati Rotary Club. ICIP reforms were highlighted to increase US capital flow into RP;
- MAP Forum on Responsible **Mining** to discuss mining reform.

JFC sent letter to NEDA DG Neri requesting consultation before 7th Foreign Investment **Negative List** issued, as well as consideration of Foreign Professional Partners in National Development Act and Rationalization of Foreign Investment Restrictions Act.

The ICIP advisor drafted keynote speech, finalized workshop program and hotel (InterCon), continued to invite speakers for the October FDI Workshop.

In August 2006 AmCham ED and ICIP Senior Advisor attended luncheon meeting hosted by PCCI and PhilExport with foreign chamber officers. PCCI president Dee proposed closer collaboration on September **National Competitiveness Summit** and October PCCI annual **Philippine Business Conference**. Also discussed were positions on anti-smuggling and fiscal incentives legislation.

ICIP Senior Advisor attended meeting chaired by former DTI secretaries Navarro and Bautista as well as heads of PCCI and PhilExport with business associations to prepare for Sept 29 **Competitiveness Summit**.

ICIP Senior Advisor attended **PDF semester review** chaired by WB with secretaries Andaya, Favila, Teves, Ombudsman Gutierrez, BIR and BOC heads. Peter Wallace presented PDF Infrastructure Group comments and ICIP Senior Advisor provided views of JFC.

ICIP members held various meetings in July at which ICIP issues were discussed, including **Ombudsman Gutierrez** who requested a copy of the Worst Red Tape Survey.

Preparations for October 5 **FDI Workshop** proceeded. The President confirmed her attendance. ICIP Senior Advisor met with Workshop speakers/reporters to discuss content preparation. Over 500 invitations sent. Filipinas Shell chairman Cua agreed to give welcoming remarks.

In September ICIP Senior Advisor attended 4 meetings to prepare recommendations for **National Competitiveness Summit** with DTI Sec Favila, former DTI Secs Bautista and Navarro and president of PCCI and PHILEXPORT, SC CJ Panganiban and House Trade & Industry COM chair Cua, who said he would discuss with House Speaker organizing Competitiveness Core Group of House committee chairs to support legislation enhancing competitiveness. He also attended AIM preparatory workshop. ICIP Senior Advisor discussed with **National Competitiveness Summit** consultant the inclusion of ICIP reforms in summit output and provided copies ICIP Advocacy Plan.

AmCham ED and ICIP Senior Advisor exerted efforts to resolve **corporate governance crisis at International School Manila (ISM)**, which AmCham has supported since its founding in 1920 as the American School. Quality international schools are essential for positive climate for foreign investor families. AmCham communicated with 28 Sustaining Members, and AmCham president Santos agreed to join slate of 10 high-level persons of several nationalities willing to stand for election to serve as “interim” Board of Trustees to replace 10 Trustees who resigned. AmCham director Johnson was elected new ISM Board president.

Other September activities included:

- AmCham ED spoke at Workshop on **Infrastructure** for House staffers;

- ICIP Senior advisor joined other JFC members at meeting of **Philippine Retirement Inc.** chaired by its president Ernesto Ordoñez with reports by its committee heads. PRA chairman Aglipay presented presentation he will use in US;
- AmCham ED and ICIP Senior Advisor attended **monthly JFC meeting** which discussed 20 issues, including EVAT input cap, NAIA-IPT-3, rationalization of fiscal incentives, infrastructure, political killings, EO 556, EPIRA amendments and forthcoming summits on Competitiveness, Infrastructure and FDI; and
- AmCham ED and ICIP Senior Advisor attended AIM-MBC-WB luncheon forum with **WB Managing Director** Daboub who described WB's intensified anti-corruption campaign and encouraged Philippines to do more to combat **corruption**;

ICIP Senior Advisor coordinated ICIP's **priority infrastructure projects list** with consultant to Infrastructure Monitoring Task Force chairman Secretary Yap and with World Bank PDF Group.

AmCham ED and ICIP Senior Advisor attended Wallace Business Forum Quarterly briefing where they recommended to **Ombudsman Gutierrez** reviving proposal of her predecessor to establish confidential channel for foreign firms to report suspected corruption by officials. Concerns revealed in AmCham **Worst Red Tape Survey** were raised. **BOC Commissioner Morales** invited AmCham to bring group to Customs to discuss red tape issues. BIR Commissioner Buñag discussed reasons why revenue officers are slow to process tax credit certificates.

Numerous protests followed Malacanang issuance of EO558, allowing government agencies and firms to engage in low-interest small loans. Critics objected that the President's reversal of EO138 could jeopardize success of microfinance in Philippines and be open to political abuse. ADB country director Crouch and WB country director von Amsberg warned it could jeopardize fiscal consolidation reform. MBC, MAP, FINEX and Rural Bankers Association of the Philippines voiced apprehensions against **EO558**, described as "a monumental setback." BSP Governor Tetangco and DOF Sec Teves - neither of whom were consulted before issuance - expressed opposition. AmCham Executive Director wrote Sec Teves to question EO558. President Arroyo finally said DOF Sec Teves will draft guidelines for **EO558**, assuring the public that the EO would not lead to behest loans.

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

During the quarter, EMERGE continued to work with the Intellectual Property Office in defining the proposed TA on IP valuation. Two meetings were held for this purpose: one with IPO DG General Adrian Cristobal, Jr, and another with Director Carmen Peralta and Division Chief Amelou Lim. The meetings covered discussions on how EMERGE can support the vision of DG Cristobal to use IPR protection as an important tool for development and competitiveness. One activity proposed is institutionalizing the capability particularly of universities and their research and development institutions (RDIs) to license their technologies and other IP assets.

EMERGE will finalize the TOR for this proposed task in the next quarter.

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

No further activities were implemented for this task during the quarter. The DENR/LMB was not able to provide EMERGE written assurance that some funds will be allocated for the actual

construction of the regional buildings to store surveys and other related land records, as required before this task can proceed.

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

EMERGE completed the TOR for a TA activity to help conduct a pilot financial audit of volunteer mining firms and their counterpart LGUs in the mining sites. The Chamber of Mines of the Philippines has been interested in adopting the Extractive Industries Transparency Initiative (EITI) in its effort to revitalize the mining business in the Philippines. The Philippines is not a signatory to the EITI, which gained country adherents after it was launched in 2003 by no less than UK Prime Minister Tony Blair. The Chamber thus asked EMERGE to help conduct a pilot EITI-like audit, which it can use to make its case to the government to adopt the initiative. This would boost the international acceptability of the Philippines as a host of investments in the mining sector.

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

Activities for next quarter include: (i) consultations/meetings with the stakeholders; (ii) completion of the financial reporting templates; (iii) and selection through competitive bidding of a firm to conduct the financial audit. The Chamber of Mines also plans to submit a grant proposal to conduct an assessment of manpower needs in the mining industry.

Infrastructure

Task 3.1.1.1b Reduce Inter-island Shipping Costs—Ports

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

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

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

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

- *Need to clarify the basis for future expansion of port capacity.*

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

The team attended various meetings on ports and shipping and provided inputs to the House of Representatives technical working group (TWG) on the RRTS, the Infrastructure Monitoring Task Force, the Export Development Council, Philippine Chamber of Commerce and Industry, and assisted in the preparations for the Competitiveness Summit (scheduled for October 6, 2006) and an Infrastructure Summit (October 4, 2006).

The House TWG meeting clarified definitions and modified various sections of the draft House Bill No. 335. The EMERGE team proposed the inclusion of the following: (a) providing LGUs the authority to issue the necessary permit for the construction and development of RORO terminals; (b) public (e.g., DBP, National Development Company) – private sector (private banks) partnership in providing financing facilities for RRTS; (c) provision of incentives as a general policy; (d) allowing private non-commercial ports to convert into private commercial ports within the RRTS; and (e) asking DOTC-MARINA to define or identify which routes are to be considered ‘missionary’ before granting incentives to investors.

In the next quarter, the team will work further with NEDA and the Export Development Council on competition policy for ports and shipping.

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

The EMERGE RRTS team analyzed the data and related information gathered from the field visits in Sorsogon, Masbate and Cebu and prepared an initial draft of their findings. The financial model for the vessel component indicated that vessel operation is financially viable in the identified routes (Pilar, Sorsogon- Aroroy, Masbate and Cawayan, Masbate-Daanbantayan, Cebu), but RORO terminal component is not financially viable. The team made further analysis of the proposed RRTS routes this quarter and expects to submit a draft report in early October.

DBP plans to hold a national conference on RRTS in November 2006. The EMERGE report will be the basis of an investment folio on RRTS that will be presented to participants, e.g., potential private sector investors, local government units, etc., of the conference.

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)

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

Task 3.2.1.2a Competition policy for ICT sector formulated and implemented

Performance Milestone Achieved: *During this quarter, the EMERGE competition policy team submitted a draft consultative document on Significant Market Power Obligations (SMPO) to the NTC. NTC accepted the draft, published it on its web page on August 24 as an NTC document and solicited comments on it. Stakeholders and other interested parties had 30 days within which to comment. The NTC will use the comments in drafting guidelines on SMPO.*

NTC with EMERGE assistance organized a TWG on Reference Interconnection Offers (RIO), composed of NTC officials and key private sector experts on ICT as an advisory body that will assist NTC draft rules and regulation on interconnection and related issues. During this quarter, the TWG meetings covered several major issues as follows:

- 1) Interconnection services to be covered by RIO
- 2) non-price and price issues in RIO that require specific guidelines from NTC
- 3) relationship between RIO and individualized interconnection agreements
- 4) publication requirements
- 5) infrastructure sharing and collocation
- 6) traffic measurement and routing
- 7) quality of interconnection
- 8) access to unbundled network elements
- 9) billing and notifications

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

USAID approved the request for the extension of EMERGE TA to NTC. The period until June 2007 will be used to help NTC develop the guidelines on Significant Market Power Obligations (SMPO) and the rules on Reference Interconnection Offers (RIO).

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 Milestone Achieved: *The EMERGE/LMIP team and Save the Ifugao Rice Terraces Movement (SITMO) launched the Kiangnan Community e-Center (CeC) on July 27, 2006. The team also turned web development training modules over to the ePuggo Community Center.*

Joel Umali conducted staff training for the Casa San Miguel, Zambales, CeC from August 30 to September 1, 2006. The training focused on the following modules:

- Developing your business plan
- Selecting the CeC staff
- CeC Institutional Arrangement
- Counterparts and sources of funding
- Capital outlay
- Services and content development
- Financial Planning
- Operations
- Marketing
- Monitoring and evaluation
- Computer training

The LMIP team, Department of Education and the CICT conducted the iSchools Web Board Training on September 18-22 at the Department of Education computer laboratory in Pasig City for nineteen public school teachers. The team has also started work with the Department of Education and CICT to develop performance monitoring tools for assessing the impact of the i-School web board training.

The LMIP team met with various parties, e.g., Mr. Tedgie Herbosa of B2BPricenow, Ms. Hyung Jung Lee of the Asian Development Bank, Mr. Alvin Marcelo of the UP Philippine General Hospital (PGH) and Mr. Robin Llamas of Prodata Net, for possible collaborative work in the near future. The most promising potential collaboration is a telemedicine project between UP PGH and rural-based doctors in Upi, Maguindanao. UP PGH has pioneered in establishing a National Telehealth Center to deliver medical advice and training through the internet. The Maguindanao-based rural doctors can use the facilities of the community e-centers (established with the assistance of EMERGE LMIP) for tele-medicine, assisted by UP PGH.

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

The EMERGE team submitted the final draft of the Strategic Plan to the CICT after meetings with Commissioner Boying Lallana. CICT will provide formal approval in early October. This will clear the way for its publication in the next quarter.

The team worked with Think Ideas on the conceptualization and design of the ICT Strategic Plan, the graphic design and packaging of the Plan. The Plan will be released in print, CD and web-based formats.

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

The report on options to improve BOT implementation and a draft bill amending certain provisions of the BOT Law were sent to NEDA, which shared the report and the draft bill with members of the Infrastructure Committee for review and comments.

The NEDA Infrastructure Committee is still reviewing the report and draft bill.

Task 3.3.2.1b Inventory of government assets for privatization.

DOF Undersecretary John Sevilla and Annie Singson interviewed several candidates and finally selected Ricardo Rigo to be the consultant for the inventory of government assets for privatization. Bernie Fernandez started the preparation of necessary documents related to hiring Rigo and his research assistant, Ronald Conquilla, for submission to USAID.

Task 3.3.2.1c Privatization of certain government assets.

Maynilad- Ray Davis discussed with the creditor banks of Maynilad the final, published TOR for solicitation of bidders to acquire governments' majority share of Maynilad. Ray assisted the Privatization Office in various meetings on the bidding and discussed the implications of the upcoming bulk water project to the current bidding process for Maynilad.

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

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

Nonoc Mines- Job Ambrosio continued his legal advisory work on the privatization of Nonoc mines. He reviewed the Second Amended and Restated Definitive Agreement prepared by PhilNico restructuring the payments due to the National Government for the sale of Nonoc mining. Ray Davis met with Jinchuan Group representatives and with the Mines and Geosciences Bureau of DENR to discuss the tax treatment of the mine and the processing plant. Ray also assisted the DOF in preparing a presentation to the Privatization Council on the issues discussed with the Jinchuan Group. Ray also met with Jinchuan representatives to discuss the Memorandum of Understanding and the Definitive Agreement on the disposition of Nonoc mines, which is expected to be finalized and signed in November 2006.

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

The next steps for Nonoc Mines:

- 1) An MOU will be signed on October 30 during the President's Trip to China to evidence the additional agreements made on the FTAA and PEZA.
- 2) Agreement between Jinchuan, Philnico and the Government on equity sharing in the project.
- 3) Prepare definitive documentation.

Al-Amanah-Job provided advice to DOF Privatization Office on the issue of absorption of Al Amanah's ROPOAs. The issue of absorption of Al-Amanah's ROPOAs has remained unsettled notwithstanding discussions among Bangko Sentral ng Pilipinas (BSP), DOF, Al Amanah Bank and the Financial Advisors on how to settle it. Likewise, Job provided DOF advice on the take out of private deposits with Al-Amanah.

Job also assisted Vic Sarza and Annie de Leon in meetings with BSP Deputy Governor Espenilla to discuss a dacion en pago in settlement of Al-Amanah's overdraft with BSP.

Performance Milestones Achieved: *1) The Privatization Plan of Amanah Bank was approved by the Amanah Board; 2) the Privatization Plan of Amanah Bank was approved by the Privatization Council subject to the establishment of the legal and regulatory framework by the BSP on Islamic banking activities; 3) BSP has affirmed that a privatized Amanah Bank will continue to exercise conventional banking activities in addition to Islamic banking activities for a period to be determined by the Monetary Board; 4) BSP has affirmed that the charter provisions under R.A. 4868 not inconsistent with other banking laws shall continue to govern the privatized Amanah Bank; 5) the PMO has secured the consent of the shareholders of Amanah Bank (DBP, SSS and GSIS) to sell their shares in accordance with the Privatization Plan.*

The next steps for the Al-Amanah Bank:

- 1) PMO will try and secure an exemption for the privatized Amanah Bank from the moratorium on the opening of bank branches for its Islamic banking operations only
- 2) PMO will try and secure a ruling from the BIR for a tax holiday to be granted to the privatized Amanah Bank in accordance with R.A. 4868
- 3) PMO, BTr and DOF will agree on the absorption by BTr of the ROPOAs of Amanah Bank in exchange for the BTr deposit liabilities and also the amount of BTr deposits to be left in Amanah Bank as well as the term and tenor for such deposit
- 4) Invitation to Bidders is scheduled to be released sometime in the second week of November 2006
- 5) Bidding is targeted to be sometime December 2006

RPN-9- Job Ambrosio researched on the legal authority of NTC to revoke a frequency granted to a broadcast network (RPN-9/IBC-13) and to issue frequencies via a public bidding. He also briefed some lawyers of the Office of the Government Corporate Counsel on the relevant laws and processes in the privatization of government assets.

The resolution of various other legal and financial issues on the privatization of these assets is expected in the next quarter.

Banking and Capital Markets

Task 4.1.1.1 Technical Assessment of saving patterns and behavior

The consultants improved and submitted their report comprising three parts, namely (a) profiling of household saving from 1985 to 2003; (b) determinants of household saving; and (c) comparison of the U.S. Survey of Consumer Finances and the Philippines' FIES questionnaires. In September, the consultants presented the study to the Monetary Board and senior management staff of the BSP. The Monetary Board members appreciated the study's findings. They look forward to the follow-on activity, which is to bring someone from the U.S. Federal Reserve Board to help the BSP develop a Consumer Finance Survey (CFS), and they will consider the EMERGE team's recommendation to make the CFS a rider to the Family Income and Expenditure Survey, administered on another day, to a panel of around 2,000 households. This task is completed.

“Technical Assessment of Saving Patterns and Behavior”: Selected Highlights

- The saving rate and levels of saving of households have declined, with saving rate reaching the lowest level since 1988 at 16.4% in 2003.
- Only 13% of households in 2003 had bank deposits, indicating that the bulk of households' savings are not in the formal financial system.
- The national capital region has the highest percentage of households (25%) with deposits in bank in 2003.
- Western Visayas has the lowest saving rate, but has the next highest percentage of households with deposits in bank (22%).
- Cagayan Valley has the highest saving rate, but has one of the lowest percentages of households with deposits in bank (8%).
- Saving behavior follows the life-cycle model, except for the age group 65 years and above that does not exhibit the expected dissaving.
- Peak of saving is by the age group 50 to 64 years, which is relatively later compared to Thailand and Taiwan.
- According to the 2000 Census of Population and Housing, 72 % of Filipinos is aged 34 years and below, while only 8% is aged 50 to 64 years.
- Findings from the regression analysis:
 - The significant determinants of saving rate are: level of income, education, percentage of young dependents, percentage of the elderly and percentage of income from abroad. Inflation rate and number of banks were not significant.
 - A 100-peso increase of the average per capita income increases the estimated mean saving rate by about 0.67 percentage points.
 - A one-percentage point increase of the proportion of household heads with at least a high school diploma increases the estimated mean saving rate by about 0.27 percentage points.
 - A one-percentage point reduction in the proportion of young dependents results to an increase in the average saving rate by 0.34 percentage points.
 - A one percentage point increase in the proportion of the elderly results to an estimated increase of 2.03 percentage points in the average saving rate.
 - A one percentage point increase in income from abroad results to an increase in the estimated mean saving rate by about half-percentage point, ceteris paribus.

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

USAID instructed EMERGE to put this technical assistance activity on hold.

Task 4.1.1.3b Policy Review of Financial Sector Taxation

The CMDC meeting on July 19 and was well attended. Finance Secretary Margarito Teves chaired the meeting. Ms. Noemi Javier, CMDC Executive Director, presented the Financial Sector Taxation Study (Task 4.1.1.3a output). Towards the end of the meeting, Secretary Teves noted that there was unanimity within the Council about the need to carry forward this reform effort and requested EMERGE to support its second phase. The CMDC so resolved. EMERGE said it would consider the request and subsequently drafted a TOR for CMDC review. Secretary Teves wrote EMERGE on August 14 formalizing the request.

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

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

Next period, with USAID approval, EMERGE will launch this 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

EMERGE organized a two-day symposium on real estate appraisal reforms on September 11 and 12, at the request of the Deputy Governor for Supervision and Examination Sector of the Bangko Sentral ng Pilipinas (BSP-SES) and the Director of the Bureau of Trade Regulation and Consumer Protection of the Department of Trade and Industry (BTRCP-DTI). The practitioners and private sector stakeholders of the real estate appraisal practice in the Philippines, who are members of the Realty Service Council of the Philippines (RESCOP), made up the bulk of the participants. Besides RESCOP, the representatives of government regulators and agencies and those from the private sector who have a stake in professional real estate appraisal and a transparent, market based valuation of real properties in the country participated in the event. About 130 participants attended the two-day symposium.

The event was designed to provide a venue for identifying and planning critical reforms in the real estate appraisal practice. Its broader objectives include the professionalization of real estate appraisal and the institutionalization of a transparent, market-based valuation of real properties in the country.

Mr. Mark Bates, EMERGE consultant, was one of the three resource speakers in the symposium. The event was organized with the participation of Philippine Australia LAMP II project. Mr. Hamish McDonald, a LAMP consultant, and Ms. Marissa Benitez, the Chairperson of the Philippine Association of Realty Appraisers, Inc. (PARA), were the other two resource speakers.

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

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

In next period, EMERGE will work with the RESCOP members to begin implementing the action plan.

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

EMERGE consultant Paul McNelis arrived in Manila to continue the capacity building activity for the BSP team under Dr. Francis Dakila on obtaining measures of the output gap in the Philippines. McNelis worked with the BSP team to refine data for estimating alternative output gap measures and evaluating how these perform, either separately or jointly, for forecasting one-year-ahead inflation.

During the first week of August McNelis continued to work with the staff of the Center for Monetary and Financial Policy to prepare for a seminar with several members of the Monetary Board and the deputy governor about this method for measuring output gap and for forecasting inflation. This seminar took place on August 2. The reviews were very positive. In particular Monetary Board member Vicente Valdepenas was particularly happy and supportive of this research effort.

McNelis also presented a seminar at the UP School of Economics in July and another one at the Asian Development Bank, with several members of the CMFP staff, on August 3. The seminar was hosted by the Chief Economist, Dr. Ifzal Ali, and his deputy, Dr. Frank Harrigan. The members of the BSP staff had an opportunity to discuss our work to date with the staff of the ADB. This interaction was helpful to both.

Next period, McNelis will make his final visit to the Philippines on this activity and complete his assignment.

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

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

The EMERGE Municipal Development Fund Office (MDFO) PROLEND team completed its work in this period. It submitted the final draft of the MDFO PROLEND Operations Manual to MDFO Executive Director Helena Habulan and EMERGE on September 4, 2006.

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

The EMERGE consultants conducted a final briefing on the PROLEND Manual for the MDFO Policy Governing Board (MDFO-PGB) on August 3, 2006, at DOF. On the remaining issues, the MDFO PGB adopted the proposal for the interest rate policy with a market base. They instructed the consultants to make the eligibility requirements less restrictive (i.e., previous borrowing history) to allow lower income class provinces, which they believe need the resources more, easier access to the PROLEND facility. Finally, they instructed the consultants to provide an annex with possible

measures of policy outcomes per policy reform area that can be the basis for monitoring and possibly rewarding LGUs for early delivery of policy outcomes. The MDFO PGB instructed the consultants to utilize the indicators and measures which are currently being used and refined by the Department of Interior and Local Government (DILG) Local Government Performance Monitoring System (LGPMS)), the Bureau of Local Government Finance Local Government Financial Monitoring System (LGFMS), and the Department of Budget and Management (DBM).

This activity is completed. The MDFO PGB said that it plans to launch the PROLEND program and the manual in the next quarter, which will constitute a Performance Milestone for this task.

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

EMERGE's main counterpart for this task is the National Credit Council (NCC). Lamberte drew up a concept paper outlining major activities that might be included in the TA for NCC. The proposed major activities are:

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

Given the limited time and budget to implement this task, EMERGE and NCC have agreed to focus first on providing TA to the Cooperative Develop Authority (CDA). There are about 27,000 operating cooperatives out of about 73,000 registered cooperatives, of which 80 percent are cooperatives with savings and credit functions. Most of the members of these cooperatives are small savers and borrowers.

NCC's request for TA is aimed at improving the capacity of the CDA to supervise and regulate cooperatives with savings and credit services. The TA is broken down into three separate tasks, which are described below. EMERGE received a letter from DOF Undersecretary and NCC Executive Director Gil S. Beltran requesting such TA.

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

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

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

NCC and CDA have approved the TOR for this project. NCC, CDA and EMERGE created Selection Committee to evaluate bids of ADR service providers. Six of the 9 ADR service providers invited to bid on the project showed up in the pre-bidding conference held on 19 September. The deadline for the submission of the bid was set for 2 October 2006.

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

Expected Performance Milestone: CDA's adoption of the framework and implementing rules and regulations for promoting and instituting alternative dispute resolution mechanisms for the cooperative sector.

Next period, EMERGE will competitively select the vendor for the purchase order to implement this activity, seek USAID approval for it, and with it start the activity.

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

The objective of the task is to improve the capacity of CDA to regularly monitor performance of cooperatives with savings and credit services in the Philippines. The specific objectives are:

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

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

NCC and CDA expect a follow-on activity that will provide empirical analysis of certain supervisory and regulatory issues using the database system (e.g., differences in the regulatory and supervisory framework for institution-based (closed-type) cooperatives and community-based (open-type) cooperatives considering that they face different types of risks). An indicative TOR has been prepared for this possible follow-on activity.

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

Next period, EMERGE will submit the TOR to USAID for approval, and with the approval it will start the activity.

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

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

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

NCC and CDA have reviewed and approved the TOR for this task. Mr. Fred Domo-ong has been chosen as the lead consultant for this project. He just retired from BSP as Director of a department

supervising rural banks, cooperatives and microfinance banks. He was involved in drafting CDA manual of rules and regulations for cooperatives with savings and credit services and represented the BSP in public hearings amending the CDA Charter and the Cooperative Code. NCC and CDA also look forward to EMERGE support for the holding of corporate governance seminar for the CDA Board of Administrators to complement the basic training course for the CDA Board of Administrators.

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

Next period, EMERGE will seek USAID approval for this activity and start implementing it.

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.

The grantee, PACT/DLSU, is to hire industry experts to develop an ASEAN negotiation framework for the private sector for selected eleven industries. The grant agreement was amended to allow direct payments to selected vendors while retaining the reimbursement scheme for the other budget line items. The amendment was with the Office of Dr. Carmelita Quebengco of DLSU for her signature as of end of September.

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

A 2nd fixed obligation grant (FOG) was awarded to AIM to fund logistics and some professional time of consultants to conduct workshops and focused group discussions (FGDs) to solicit reactions on the findings and recommendations of the assessment. USAID approved the award of a 2nd FOG to the Scientific Research Foundation of the AIM on July 17. Work was started by the AIM team in July.

Task 2.2.1.4 Biotech proposals.

Task 2.2.1.4a Biotech proposal on delayed ripening papaya. This activity aims to conduct field testing of transgenic papaya with delayed ripening trait as required by the DA AO8 before it can go into commercialization. USAID approved the award to the University of the Philippines Los Banos Foundation, Inc. (UPLBFI) on September 1. At the end of September the grant agreement was being finalized.

Task 2.2.1.4b Biotech proposal on Accelerating the Development and Commercialization of Papaya Ringspot Virus-Resistant Papayas in the Philippines. The proposed activities will complete the requirements of NCBP to allow succeeding trials under DA AO8. USAID approved the award to the International Service for the Acquisition of Agri-biotech Applications (ISAAA) on August 24. The grant agreement was being finalized by end of September.

Task 2.2.1.4c Biotech proposal on FSBR Eggplant. This activity is about conducting field testing to develop shoot borer-resistant eggplants in the Philippines from a technology developed by Mahyco in India, who has agreed to extend the technology to the Philippines on selected eggplant varieties. USAID approved the award to the University of the Philippines Los Banos Foundation, Inc. (UPLBFI) on August 24. The grant agreement was being finalized by end of September.

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

EMERGE received USAID approval to award the activity to ISAAA on July 19. The Grant Agreement was finalized in August.

Task 2.2.2.3 Investment Climate Improvement Project

The grant was awarded to the American Chamber of Commerce (AmCham) of the Philippines to identify and communicate to the Philippine government policy and legal reforms that will facilitate new investment and generate more employment. The AmCham team continued work called for by the grant agreement during the quarter. The EMERGE team clarified the kind and type of reports that AmCham is required to submit to comply with the terms of the Grant Agreement during a meeting on August 3.

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

Fiscal Sustainability

Task 1.1.1.4 BIR Tax Rulings.

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

Task 1.1.1.6 Assessing Cigarette Tax Options

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

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

This activity is a training program for the BIR officers and staff on the tax implications of the Philippine version of the International Financial Reporting Standards (IFRS). The PO was issued to SGV on July 11.

Task 1.2.2.4 Enhancement of the DBM Website and Budget Transparency

This TA to DBM is expected to enhance budget execution and accountability tracking of lump-sum appropriations, specifically on infrastructure and allocations to the LGUs. A vendor was selected from a competitive bidding conducted by EMERGE for the activity in September. USAID approval was requested on September 6 and the budget was being negotiated with the prospective vendor at the end of the reporting period.

On Trade and Investment

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

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

Task 2.1.3.1b Streamlining DA SPS Regulations II

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

Task 2.1.5.1 WTO e-learning

The TA to the DTI aims to develop the capacity of government and civil society to understand and participate in international trade discussions and negotiations. USAID approvals were received for the international travels and country clearances of resource persons for the topical workshops scheduled in September and October.

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

This activity aims to develop a system to make information on product technical regulations more readily available, accessible and retrievable by the business sector. USAID approval was received on August 3, and the PO was issued to the selected vendor on August 14.

On Infrastructure

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

This TA to the CICT involves packaging the Strategic Investment Roadmap into a user friendly print document with a corresponding CD version, and designing the CICT Roadmap website. Because of the uncertainty of the total costs that will be incurred in developing the print and website for the Roadmap, EMERGE will issue several purchase orders as costs become known. The first purchase order covering the development of a concept, design and a slogan for the Roadmap was accepted and signed by the competitively selected vendor, Think Ideas, Inc., on July 31. Think Ideas started work the first week of August.

Conferences, Seminars and Workshops

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

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

RR 2.1.1 The IFEX Symposium 15 Aug 06

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

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

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

RR 2.2.2 PCCI Anti-Corruption Workshop 23 Aug 06

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

RR 2.2.2 Foreign Direct Investment Forum 5 Oct 06

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

RR 2.2.2 National Competitiveness Summit 28 Sep 06

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

Banking and Capital Markets

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

This activity is about the development of alternative dispute resolution (ADR) mechanisms at the primary, secondary and tertiary cooperative levels to decongest dispute resolutions at the national level. A vendor will be selected competitively. The RFP with a closing date of October 3, was distributed during the prebid conference on September 19, and EMERGE was preparing a request for USAID approval.

TASK 4 - SO2 Monitoring, Assessment, Reporting

Project monitoring for EMERGE focused on tasks completed from the fourth quarter of 2004 through the second quarter of 2006, particularly on Reform Theme 1: Fiscal Sustainability and Reform Theme 2: Expanded Trade and Investment. Progress into the areas of Reform Theme 3: Infrastructure, and Reform Theme 4: Banking and Capital Markets is expected in the next quarter.

Policy Impact Monitoring for the USAID SO2 results framework involved updating the major reform indicators for trade, fiscal performance, youth unemployment and corruption while reporting on the more bothersome areas. Two reports were written to document areas of concern:

The first one on Effective Rates of Protection (EPRs) documented policy backsliding in trade liberalization. The report stated that higher EPRs of 14.35% in 2006 can be attributed to increasing protection in Manufacturing and Agriculture.

A second report entitled "Unemployment in Perspective" said while unemployment in the Philippines appears to be just at par with the global average, there is a lot to be bothered about. One

out of four youths in the Philippines and one out of three youths in the National Capital Region are unemployed. Unemployment is highest among the youth, among college graduates, and in the National Capital Region. New investment registered under the Philippine Economic Zone Authority only employed an equivalent of 10% of unemployed college graduates in 2004. Youth unemployment has more than doubled during the last decade and a half.

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

TASK 5 - Public Information and Consultations

During this reporting period, the Public Information Manager drafted, edited and sent final copies of the following success stories to EMERGE management and USAID:

- EMERGE assistance on the on-going eLearning program on WTO
- EMERGE assistance in the issuance of a circular by the Department of Interior and Local Government (DILG) suspending imposition and collection of illegal fees and taxes to RoRo cargoes
- EMERGE assistance in the establishment of a community e-center in Kiangan, Ifugao
- EMERGE assistance in the development of Consultative Document on Significant Market Power Obligations for the National Telecommunications Commission
- EMERGE assistance in the development of instructional materials for the Department of Education iSchools program

Ronald monitored and clipped news articles about various government agencies and issues that may affect the EMERGE TA program, sending them to EMERGE management.

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.

EMERGE Project, CScallison, COP, 30 Oct 2006