



QUARTERLY PERFORMANCE REPORT

Contractor: CARANA Corp./Nathan Associates Inc.

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

Reporting Period: October 1 to December 31, 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 December 31, 2006, was \$4,280,322.30.

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 fourth quarter of 2006 EMERGE was to submit the quarterly report for the preceding quarter by October 30. It was to support another Policy Advisory Committee (PAC) meeting as the committee's secretariat. It was to fill the vacant Banking and Capital Markets Team Leader position upon USAID approval of its nomination, which had been submitted to USAID/RDO on July 31, 2006.

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.

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

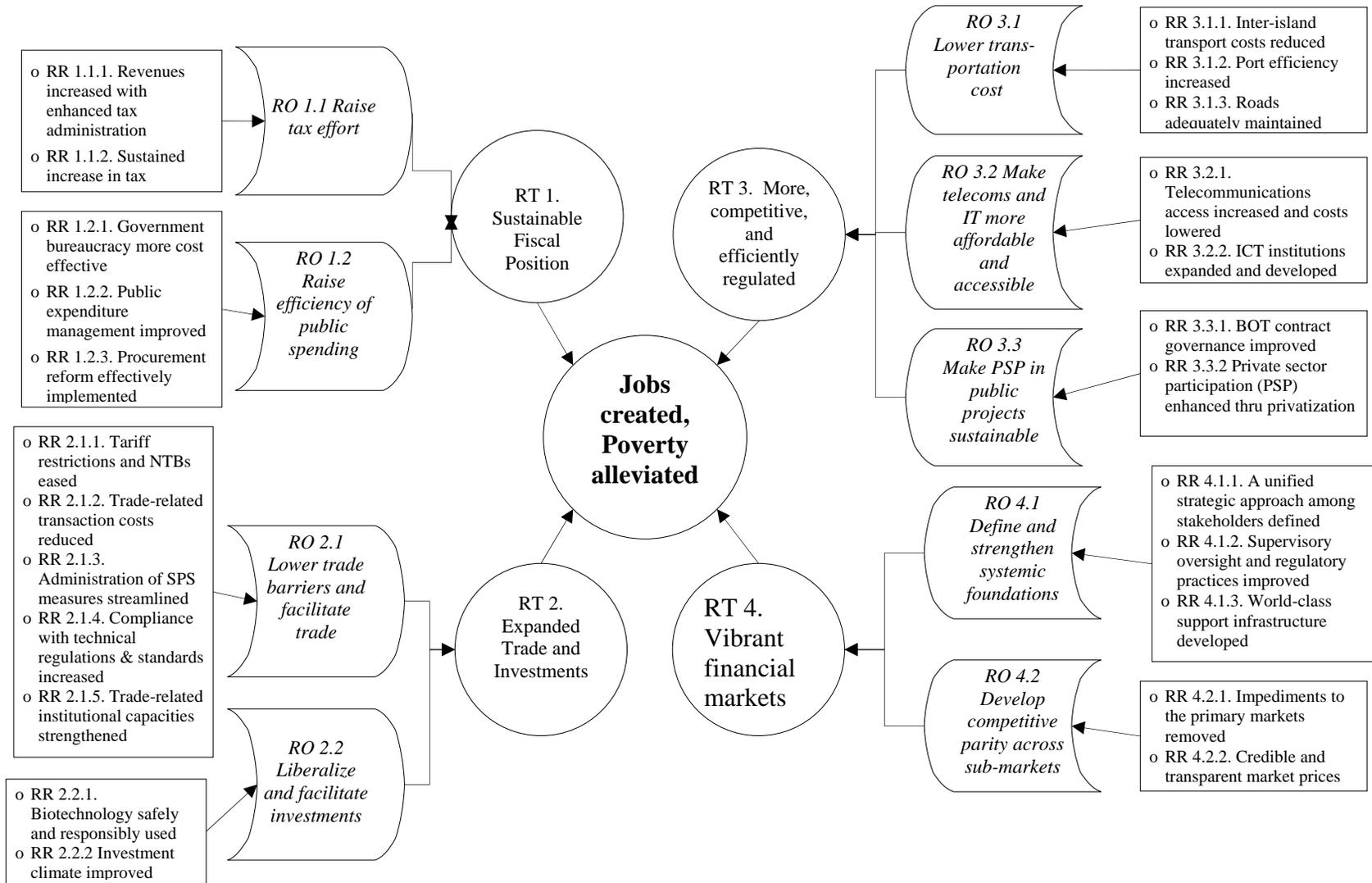


Table 1. EMERGE 2006 Technical Assistance Tasks

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		

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. 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. 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 expected 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 was then to follow. The pilot test in Revenue District Office 39 and Register of Deeds in Quezon City was anticipated in mid-November.

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 second quarter of 2006 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. The TA task 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. As of the end of the last quarter, 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

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.

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.

By the end of the last quarter, the following outputs had 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 had 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, was to be completed in October.

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

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

USAID approved this task on 12 Sep 2006. The task has 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.

The Center for Operations Research and Management Science of De La Salle University (CORMS-DLSU) won the bidding for the first track. 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 second track, 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 had to decide whether to carry out a full blown inventory and review of all the issuances dating back to the 1960s, or just to formulate a new revenue regulation. The finalization of scope of work (SOW) and contracting a consultant were hinged on this decision.

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

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

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

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

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

By the end of the last quarter only one session remained to be conducted in the first phase of the task: 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 was 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.

<i>Reform Result 1.1.2. Sustained increase in tax collection</i>
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Task 1.1.2.1a Individual Performance Management System at the BIR Installed (In the Large Taxpayer Service (LTS))

This task was completed in November 2005.

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

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

This task was completed in June 2005.

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

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

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

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

The EMERGE team mapped the second wave for PMS. Its components are (a) PMS for all the major offices of BIR, (b) 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.

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 “second wave” was approved by USAID on 18 Aug 06 and started in September with a series of meetings with MANCOM and other major stakeholders to firm up the direction of the TA. 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 of this year, a hybrid of an office-level PMS and the pre-Attrition Law individual performance evaluation system (PES) will be used.

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.

By the beginning of this quarter, experts had been contracted for 14 sectors/subsectors, while 4 sectors/subsectors remained unassigned, since the former DBM Secretary did not express preference for any of the nominated experts. Nine of the 14 contracted experts had 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 were 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 was 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%

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 was set aside due to the decision by USAID to reduce the EMERGE budget.

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

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

DBM Undersecretary (Usec) Laura Pascua requested EMERGE to provide a U.S. consultant to help the DBM learn about the Performance Assessment and Review Tool (PART) used by the US Government Office of Management and Budget (OMB) to assess the performance of government units. The TOR for this TA was drafted in April 2005, but it was postponed at the request of Usec Laura Pascua because the DBM staff was busy with budget preparation and the government restructuring program. Usec Pascua expressed approval of the TOR. 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. EMERGE received a formal letter from Usec Pascua dated 27 Jun 06 requesting this TA.

The resumes of four prospective consultants were forwarded to DBM. Usec Pascua agreed to consult the directors involved and inform EMERGE of the desired start date for the task.

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

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

The EMERGE team hired Mr. Jem Armovit to work on a model to predict cash inflows for DBM. It is needed to allow DBM to issue notices of cash allotments quarterly instead of - monthly. His engagement was completed in September 2005. It introduced a methodology for forecasting revenues collected by the BIR and the Bureau of Customs (BOC), together making

up about 99% of tax revenues and about 87% of total national government revenues. DBM Usec Laura Pascua subsequently requested EMERGE to train selected staff of DBM on how to use the model to help DBM reduce the government's risk of spending beyond its actual revenues. In 2002, the projections of DOF and BTr were substantially off and this resulted in a build-up of cash payables. The statistical model EMERGE developed would not be the only basis for decision-making. It would be used to produce DBM inputs into an inter-agency cash programming exercise. Usec Pascua also asked that the purchase of EViews™ software be part of the task.

Undersecretary Pascua withheld a formal request for the training pending consultation with the Fiscal Planning Bureau since bureau and department work was focused on the 2007 Budget deliberations in Congress. 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

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

EMERGE prepared an SOW for this task 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. Usec Relampagos said the TA should help the DBM streamline the process of generating, processing, and releasing of information prior to public dissemination in general and publication in the website in particular. The website could be integral to promoting budget transparency and accountability; however, sans generation and processing of quality budgetary data prior to publication, these goals could not be supported by the website. Usec Relampagos was to be the agency counterpart.

It was agreed that TA should address the following needs: (a) streamlined and automated preparation of the special allotment release order (SARO) and the notice of cash allocation (NCA), (b) a database design that supports the generation of reports required by clients and automatically uploaded to the web, and (c) an expenditure tracking mechanism for infrastructure projects. A related need is an incentive mechanism for line agencies to release required data to support monitoring activities.

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

Task 1.2.2.5 Improving the public expenditure management system

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

Reform Result 1.2.3. Procurement reform implemented

Task 1.2.3.1a Customized Agency Manuals and Generic Procurement Manuals Aligned

This task was completed in July 2005.

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

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

This task was completed in October 2005.

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

Reform Objective 2.1 Lower trade barriers and facilitate trade

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

Task 2.1.1.1 Assessment of the economic impact of trade liberalization

This task is in response to a request from Commissioner Edgardo Abon, Chairman of the Tariff Commission, to assess the economic impact of the tariff reform program and the country's participation in regional trade agreements. The Commissioner has been often asked by stakeholders, during tariff hearings, about the impact of the country's trade liberalization program, and there is continual pressure to increase tariff protection and roll back other trade reforms. EMERGE started work on developing the TOR for this task in coordination with some of the officials of the Philippine Tariff Commission. The proposed TOR was supposed to be an ex-post assessment of trade liberalization in the country to complement the ex-ante assessment of the tariff reforms using a general equilibrium model of the Philippines, which was done for the Commission by the John Curtin Institute of Public Policy. However, further activities on this task were put on hold in May 2006, given the USAID reduction of the EMERGE budget.

Discussions were resumed in August after EMERGE analysis indicated that effective rates of protection have not actually been falling as previously believed, but rather that there has been a steady stream of tariff increases over the last few years. A meeting of EMERGE, USAID and GTZ on Sept 19 considered how best to respond to the Tariff Commission's TA request. The group agreed to have a donors' roundtable discussion with academe and researchers to define the questions to be addressed by an impact study and possible methodologies to be used. GTZ volunteered to organize the meeting early next quarter.

Reform Result 2.1.2. Trade-related transactions costs reduced

Task 2.1.2.1 Customs Post Entry Audit Group (PEAG)

This task was completed in February 2005.

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

Task 2.1.2.2 Customs Risk Management System Improved

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

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

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

The TOR for this task was 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.

Accomplishments during the last quarter include: (i) submission to EMERGE of the applicability analysis of the Revised Kyoto Convention (RKC) to the Philippines; (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 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 expected to submit the final report early in the next quarter.

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

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

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

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

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

For next quarter, the SPS team was 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.

<i>Reform Result 2.1.4. Compliance with product technical regulations & standards increased and cost of compliance reduced</i>
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Task 2.1.4.1 Development and establishment of a standards and conformance (S&C) portal

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

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

development and establishment of the portal; Phase 3- institutional arrangements to sustain and enhance it.

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

A major issue encountered towards the end of the last quarter was an overlap between EMERGE and EU TA on the portal. The EU is also providing TA to BPS that 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 was concern that (i) it might not accommodate the features and functionalities of the portal covered under EMERGE, some of which should be custom-made, i.e. designed specific to the needs of BPS, and (ii) there is no guarantee that the supplier of JOOMLA has the capability to develop the features/functionalities required by EMERGE. Oliver was tasked to discuss these issues with SYSTEMA before a decision on which option to take can be made early next quarter.

During the 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.

<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.*

By 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) were implemented by the end of June 2006. The IATP Secretariat organized area meetings and informal get-togethers of the participants on June 23 and 30 and 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 face-to-face workshops. The workshops were scheduled for September and October 2006. Other activities for next quarter are: (i) completion of the optional/elective on-line courses that started in July; and (ii) special class for 30-40 judges from the Philippine Judicial Academy (PhilJA) that also started 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.

As of the end of the last quarter, the program had 474 active e-learners, which is 18 percent higher than the original target of 400 participants. 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.

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 to start Nov 1; and (iii) the final and integrating workshop on Dec 14.

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. 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, 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. BFAD published on its website the proposed guidelines to solicit comments from the general public, and it subsequently approved the final draft of the Administrative Order (AO) on the Rules and Regulations on the Registration and

Labeling of Processed Foods Derived from Modern Biotechnology, which was drafted in consultation with the stakeholders. The draft was forwarded to DOH, which is a member of the NCBP, for review, approval and signature by the Hon. Secretary of Health Francisco T. Duque. The Secretary of Health was expected to issue an Administrative Order enabling the guidelines.

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

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

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

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

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

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

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

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

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

This TA was completed in July 2006.

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

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

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

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

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

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

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

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

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

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

Type of Activities	Trainings/Workshops/Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
Institutional Capacity Building	Seminar on Risk Assessment of GM Crops For Commercial Release	Training-Workshop for Regulators	20-22 September 2006	24	PHINMA Training Center, Tagaytay City	89 (31 Male, 58 Female)	policymakers and regulators, technology developers
IEC	Seminar-Workshop on Economic Opportunities in Biotech for Caraga	Seminar-Consultation on Biosafety/ Biocommerce	27-28 September 2006	18	Northern Mindanao State Institute of Science and Technology (NORMISIST), Butuan City	120 (65 Male, 55 Female)	LGU officials (executives and technical officers), farmers, people's organization, academe, investors/ business organizations, media

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

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

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

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

The grant proposal of the ISAAA was approved by USAID late July. The ISAAA consultant team assisted the DA in drafting an 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. At the end of the last quarter ISAAA was finalizing the protocols based on the comments and suggestions during the

workshops. Once finalized, the protocols are expected to 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.

In addition to following on the above initiatives, activities for next quarter were also to 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.

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

Professional editing of the coconut study team report was completed during the last quarter. It was to be submitted to the BOI and DTI early 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 expected to work on the details of this task and prepare the TOR when the credit bureau law is enacted by the Philippine Congress, helping to operationalize the credit bureau. The House scheduled a discussion on its version of the credit bureau bill after 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 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.*

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 Lopus 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 GNPowder 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.procurement-service.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.)

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 that 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 the last quarter, EMERGE continued to work with the Intellectual Property Office in defining the proposed TA on IP valuation and expected to 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

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 has been 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. If this written assurance cannot be obtained, EMERGE will have to drop this task.

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. 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 first TOR was approved by USAID in September. The TA is to come in two phases. Phase 1 will cover the development of reporting templates for the mining companies and the LGUs in the pilot mining areas. The templates will be developed in coordination with the various stakeholders: mining companies, LGUs, and the relevant national agencies. Phase 2, on the other hand, will be the implementation of the 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 planned 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.

Reform Result 2.2.3 Investment facilitated

Task 2.2.3.1 Strategic Development Initiatives

Performance Milestones Achieved: 1) Among the recommendations of the first consultant engaged under this task (Dr. Limlingan) was the need to strengthen the middle management level in Government, and this led to a request by the NEDA Secretary for JICA to fund a program to do so. 2) He recommended a reconsideration of the current BOT Law, which the NEDA Infrastructure Committee is now endorsing. 3) He also recommended a concerted effort to revive the mining industry, providing support for NEDA Secretary Neri's efforts to create a better investment climate for mining.

4) The second consultant of this task (Mr. Chikiamco) developed information and recommendations that were later used by the NEDA Secretary a) to strategize how property rights can be used as a tool for upland communities to access credit for enterprise development and b) in Monetary Board discussions on how to use local tax returns to facilitate access to credit.

Reform Objective 3.1 Lower transportation cost

Reform Result 3.1.1 Inter-island shipping cost reduced

Task 3.1.1.1a Reduce Inter-island Shipping Costs—RoRo

This task was completed in October 2005.

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

2) The team provided technical assistance to the Federation of Philippine Industries (FPI) in drafting a RORO Bill submitted by FPI to the Technical Working Group (TWG) created by the House Committee on RORO and Railways (chaired by Rep. Baculio) to consolidate comments on the RORO Bill (HB 335) filed

by Rep. Marcos. The team contributed several of the important new provisions contained in the FPI version not found in the original HB 335.

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

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

Task 3.1.1.1b Reduce Inter-island Shipping Costs—Ports

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

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

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

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

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

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

This is a new subtask requested on an urgent basis by NEDA DG/Secretary Neri in May 2006. EMERGE developed a TOR in response to his request and USAID approved the hiring of Henry Basilio and Rafael Hernandez as consultants for this TA. Henry Basilio and Rafael Hernandez were expected to work further with NEDA and the Export Development Council on competition policy for ports and shipping and 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. 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 October, which will be presented to the DBP management for review and comments. DBP planned to hold a national conference on RRTS in November 2006 and present the investment folio to participants, e.g., potential private sector investors, local government units, etc.

Reform Result 3.1.3 Roads adequately maintained

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

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

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

Reform Objective 3.2 Make telecommunications and IT more affordable and accessible

Reform Result 3.2.1 Telecommunications access increased and costs lowered

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

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

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

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

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

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

Task 3.2.1.2a Competition policy for ICT sector formulated and implemented

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

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

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

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

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

USAID approved the request for the extension of EMERGE TA to NTC on 21 Sep 06. The period until June 2007 will be used to help NTC develop the guidelines on Significant Market Power Obligations (SMPO) and the rules on Reference Interconnection Offers (RIO).

Reform Result 3.2.2. ICT institutions expanded and developed

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

This TA was completed in April 2005.

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

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

This TA was completed in May 2005.

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

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

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

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

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

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

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

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

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

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.*

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. The EMERGE team submitted the final draft of the Strategic Plan to the CICT after meetings with Commissioner Boying Lallana. CICT was expected to provide formal approval in October, which would clear the way for its 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

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

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

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

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

Reform Result 3.3.2 Private sector participation enhanced thru privatization

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

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

Task 3.3.2.1b Inventory of government assets for privatization.

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

comprehensive data base inventory of government assets to be privatized, while guidelines for privatization shall be prepared during the second stage. EMERGE drafted a TOR for the first stage. DOF Usec John Sevilla and Annie DeLeon interviewed several candidates and finally selected Ricardo Rigo to be the consultant for the inventory of government assets. EMERGE expected to submit the TOR to USAID for approval during the next quarter.

Task 3.3.2.1c Privatization of certain government assets.

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

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

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

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

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

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

continue to govern the privatized Amanah Bank; 8) the PMO has secured the consent of the shareholders of Amanah Bank (DBP, SSS and GSIS) to sell their shares in accordance with the Privatization Plan.

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

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

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. The sale of Maynilad was expected to be completed in December 2006.

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

The next steps for Nonoc Mines:

- 1) A Memorandum of Understanding (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 Agreement documentation.

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

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.

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.

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

Reform Result 4.1.1 A unified strategic approach among stakeholders adopted

Task 4.1.1.1a Technical Assessment of saving patterns and behavior

This task was completed in September 2006.

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

This assessment was identified as a priority task by the Bangko Sentral ng Pilipinas (BSP), which is looking for ways to improve its regulations and expand savings. The objective was to identify the demographic variables affecting saving at the household level. BSP Deputy Gov. Nestor Espenilla, who is the primary counterpart, requested assistance to institutionalize the consumer finance survey. With the approval by USAID of the TOR, EMERGE hired Dr. Lisa Grace Bersales and Mr. Dennis Mapa, Sr., on March 6, 2006. The team briefed BSP officials headed by Deputy Gov. Espenilla on their findings on saving patterns, which they estimated using data from the triennial family income and expenditure surveys (FIES) from 1985 to 2003.

The consultants recommended that the BSP start a new survey, instead of riding on the Family Income and Expenditure Survey, to institutionalize the gathering of data on consumer finance. The consultants submitted their report comprising three parts, namely (a) profiling of household saving from 1985 to 2003; (b) determinants of household saving; and (c) comparison of the U.S. Survey of Consumer Finances and the Philippines' FIES questionnaires. In September 2006, the consultants presented the study to the Monetary Board and senior management staff of the BSP. The Monetary Board members appreciated the study's findings. They look forward to the follow-on activity, which is to bring someone from the U.S. Federal Reserve Board to help the BSP develop a Consumer Finance Survey (CFS), and they will consider the EMERGE team's recommendation to make the CFS a rider to the Family Income and Expenditure Survey, administered on another day, to a panel of around 2,000 households. This task is completed.

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

Task 4.1.1.2a 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, 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

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

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

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

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

Next period, with USAID approval, EMERGE expected to launch this activity.

Reform Result 4.1.2 Supervisory oversight and regulatory practices improved

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

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

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

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

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

- Risk-based capital framework for SEC-covered institutions and agents;
- Training on risk management for identified stakeholders;

- Rules on the use of uncertificated securities and securities ownership in conjunction with RA 8792 (Electronic Commerce Act)

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

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

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

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

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

Task 4.1.2.4 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 (DG) Nestor A. Espenilla, Jr., asked for further assistance so that the initial report of Mark Bates, Real Estate Appraisal consultant, about a framework to guide appraisers in real property valuation, can be translated into a strategic roadmap with specific timelines. Mr. Bates submitted this roadmap in late November 2005 and DG Espenilla accepted it. DG Espenilla believed, however, that many of the essential reforms are beyond the purview of the BSP, and he began to build a coalition of stakeholders to mobilize the roadmap. In response to DG Espenilla's request, EMERGE arranged the meeting between BSP, DTI Bureau of Trade Relations and Consumer Protection (BTRCP) Director Victorino Dimagiba and EMERGE on the implementation of the roadmap towards the harmonization and transparency of procedures for valuing real estate properties in the Philippines. At their request, EMERGE subsequently organized a two-day symposium on real estate appraisal reforms on September 11 and 12, 2006. About 130 participants attended the two-day symposium, which was organized with the participation of Philippine-Australia LAMP II project. The practitioners and private sector stakeholders of the real estate appraisal practice in the Philippines, who are members of the Realty Service Council of the Philippines (RESCOP), made up the bulk of the participants. Besides RESCOP, the representatives of government regulators and agencies and those from the private sector who have a stake in professional real estate appraisal and a transparent, market based valuation of real properties in the country also participated.

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

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

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

Continuing TA from Dr. Paul McNelis, covering 4 on-site trips over a period of one year, was structured at the request of BSP and approved by USAID on October 11, 2005. Fr. McNelis made three 2-week trips to Manila in December 2005, March 2006 and August 2006 to work with the staff of the BSP Center for Monetary and Financial Policy. He suggested that the staff start with the open-economy limited participation model used by the Bank of Canada, developed by Scott Hendry, Wai-Ming Ho, and Kevin Moran. He planned a final trip to Manila in December 2006 to complete this 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 4.1.2.6 TA to the Insurance Commission (IC) to improve its regulatory and operational efficiency

Insurance Commissioner Evangeline Escobillo confirmed that the automation of the Commission was her most urgent priority. This would involve an audit of the business processes within the Commission and the crafting of a corresponding plan for automating the generation and handling of information within departments of the IC and between the IC and the public/covered institutions. Comm. Escobillo requested that the SOW indicate that the deliverables be completed by May 2006, as the Commission would need the plan to spend its budget for this purpose. Commissioner Escobillo also requested third party consultants to review the completed drafts for (a) risk-based supervisory framework, (b) uniform chart of accounts and (c) new insurance code. Lastly, there is the request for an awareness campaign (for the public and covered institutions/agents), training workshops (both for IC staff and regulated firms/agents) and in-house monitoring for compliance. EMERGE provided information to the Insurance Commissioner from DBM on how the Commission may tap its internal funds to mobilize a team of experts to design its information system and computerization plan.

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

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

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

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

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

Reform Result 4.1.3 World-class support infrastructure developed

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

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

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

Reform Objective 4.2 Develop competitive parity across sub-markets

Reform Result 4.2.1. Impediments from the primary markets removed

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

Expected Performance Milestone: *The Department of Finance (DOF) Municipal Development Fund Office (MDFO) Policy Governing Board formerly accepts the draft Program Lending Manual prepared*

by the EMERGE Team and the CDs and brochure explaining the program and providing application templates for policy-based loans to local government units for infrastructure and other priority projects.

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

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

The EMERGE Municipal Development Fund Office (MDFO) PROLEND team completed most of its work in the previous period. It submitted the final draft of the MDFO PROLEND Operations Manual to MDFO Executive Director Helena Habulan and EMERGE on 4 Sep 06.

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

The MDFO PGB said that it plans to launch the PROLEND program and distribute 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

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

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

- NCC as a knowledge center for the improvement of credit policy environment
- CDA institutional strengthening
- Credit Information System
- Re-assessing the regulatory framework for NGO-MFI

- Addressing the missing market for financial services
- Assessing existing government specialized credit programs for certain sectors of the economy

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

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 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 select the vendor for the purchase order to implement this activity, seek USAID approval and start it.

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

NCC and CDA plan 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 task.

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

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

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

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

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

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

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

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

AIM solicited a second grant as a supplement to the 1st grant to AIM/SRF for focus group discussions (FGDs) and a workshop to solicit reactions from various sectors on the result of the team's assessment of the processes involved in motor vehicle registration, land public transport franchising and transport sector taxation. USAID approved the award of the 2nd FOG to the AIM Scientific Research Foundation on July 17.

Task 2.2.1.4 Biotech proposals.

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

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

Task 2.2.2.3 Investment Climate Improvement Project

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

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

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

Fiscal Sustainability

Task 1.1.1.4 BIR Tax Rulings.

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

Task 1.1.1.6 Assessing Cigarette Tax Options

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

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. 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 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. Then DBM Secretary Neri asked that the activity be put on a fast track. A vendor was selected from a competitive bidding conducted by EMERGE for the activity in September. USAID 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 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 2.1.3.1b 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 2.1.4.1 Project Design for the Philippine Standards and Compliance Portal (S&CP)

This activity is lodged with the Bureau of Product Standards (BPS) to develop a system to make information on product technical regulations available, accessible and retrievable by the business sector. USAID approval was received on August 3, and the PO was issued to the selected vendor on August 14.

Task 2.1.5.1 WTO e-learning

The TA to the DTI aims to develop the capacity of government and civil society to understand and participate in international trade discussions and negotiations. The subcontract to IATP was amended on March 10, 2006, to reflect specific deliverables and to restructure the payment tranches. USAID approvals were received for the international travel and country clearances of resource persons for the topical workshops scheduled in September and October 2006.

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

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

RR 2.1.1 PCCI WTO Consultations Aug-Sep 2005

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

RR 2.2.2 Widening of the Localization of the National Export Congress

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

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

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

RR 2.2.3 Mining Team

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

RR 2.2.3 Land Reclamation

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

On Infrastructure

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

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

Conferences, Seminars and Workshops

RR 1.1.1 DOF Finance Planning Workshop 7-8 July 2005

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

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

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

RR 2.1.1 Philippine Franchise Conference 14-17 July 2005

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

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

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

RR 2.2.1 APEC Conference on Biosafety 16-18 Jan 2006

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

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

Performance Milestone Achieved: *This conference helped establish e-Services Philippines as an international congregation of local and foreign players for IT Outsourcing, by boosting the credibility of e-Services with the presence of Mr. Nigel Roxburgh of the National Outsourcing Association (NOA) for opportunities in UK and Europe, Sean Carroll of the Medical Transcription Industry Association (MTIA)*

in the US, and Avinash Vashistha for collaboration opportunities in India. Some 450 people attended the CEO Forum, 1800 visited the exhibits, and subsequently almost US\$23.5 million in new contracts were reportedly under negotiation by exhibitors.

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

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

RR 2.1.1 The IFEX Symposium 15 Aug 06

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

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

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

RR 2.2.2 PCCI Anti-Corruption Workshop 23 Aug 06

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

RR 2.2.2 Foreign Direct Investment Forum 5 Oct 06

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

RR 2.2.2 National Competitiveness Summit 28 Sep 06

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

Banking and Capital Markets

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

This activity is about the development of alternative dispute resolution (ADR) mechanisms at the primary, secondary and tertiary cooperative levels to decongest dispute resolutions at the national level. The 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

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

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

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

TASK 5 - Public Information and Consultations

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

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

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

4) Performance during the Quarter:

Administrative Tasks

EMERGE submitted the quarterly report for the preceding quarter on October 30. Attempts to schedule another PAC meeting during this quarter were unsuccessful due to the busy schedules of its members. It was hoped the next meeting could be held in January 2007.

The USAID Supervisory Regional Contracting Officer approved CARANA's nomination of Dr. Mario Lamberte, currently on board as the EMERGE Microfinance Task Designer and Manager,

for the vacant EMERGE Banking and Capital Markets Team Leader position on October 20, 2006. EMERGE revised Dr. Lamberte's contract accordingly to add his new official duties.

TASK 1 - Policy Analysis and Technical Assistance

Fiscal Sustainability

The government fiscal position has shown steady improvements since 2004. In its report to the Congressional Committee on Oversight last 15 January 2007, shown in Table below, the Department of Finance estimated that the national government fiscal deficit for the year 2006 would amount to only PhP82.6 billion or 1.4% of GDP. When the EMERGE project started in 2004, the government's deficit was at PhP184.6 billion or 3.8% of GDP. In 2005, this was reduced to PhP146.7 billion or 2.7% of GDP. The government's expected fiscal position in 2006 is better than its target of PhP124.8 billion or 2.1% of GDP. As a result, the government has revised its medium-term fiscal program to achieve a balanced budget by 2008, two years ahead of the original target.

NATIONAL GOVERNMENT FISCAL POSITION, 2004 - 2006

Item/Amount	In Billion Pesos				As Percent of GDP			
	Actual 2004	Actual 2005	Program 2006	Outlook 2006	Actual 2004	Actual 2005	Program 2006	Outlook 2006
Revenue	699.8	816.2	974.2	970.4	14.4	15.1	16.2	16.2
Tax	598.0	705.7	879.8	855.3	12.3	13.0	14.7	14.3
Bu Internal Revenue	468.2	542.7	675.4	648.5	9.6	10.0	11.3	10.8
Bu Customs	122.5	154.6	196.0	198.1	2.5	2.9	3.3	3.3
Other	7.4	8.4	8.4	8.7	0.2	0.2	0.1	0.1
Non-Tax	101.8	110.5	94.4	115.1	2.1	2.0	1.6	1.9
Bu Treasury	64.7	70.6	51.9	71.9	1.3	1.3	0.9	1.2
Private	0.4	2.4	0.5	4.3	0.0	0.0	0.0	0.1
Other	36.6	37.5	42.0	38.9	0.8	0.7	0.7	0.7
Expenditure	884.4	962.9	1099.0	1053.0	18.2	17.8	18.3	17.6
Surplus/(Deficit)	(184.6)	(146.7)	(124.8)	(82.6)	(3.8)	(2.7)	(2.1)	(1.4)

Source of basic data:

"NG Fiscal Performance," Presentation to the Congressional Committee on Oversight, 15 January 2007

The favorable government fiscal position has contributed to better macroeconomic performance. The national government debt-to-GDP ratio and interest rates have been on the decline. The inflation rate has been steady and moderate. Consequently, the credit rating agencies have upgraded the country's credit rating. The country has better reviews of its economic outlook, which in turn, are expected to trigger inflows of investments and accordingly higher economic growth. However, the country's economic managers have to translate the country's macroeconomic gains into gains that accrue to the majority of the Filipinos, i.e., more jobs, lower poverty incidence, and better access to basic social services, such as health and education. A year or two of improving economic performance are not enough. What is needed is a period of

sustained and broad-based economic growth, of which fiscal sustainability is an important component.

Whether the Bureau attains or not its collection target depends also upon the level at which this goal is set by the DBCC. The Bureau is not expected to meet its 2006 target collection. The BIR's collection performance from January to November 2006 was Php24.3 billion short of its collection target for the period. By the key indicators however, tax collection performance is improving. From the Table above, one can see that the Bureau's tax effort has risen from 9.6% in 2004 to 10.8% in 2006. The BIR collected Php596.6 billion in the first 11 months of 2006, which is 19.7% higher than the Php498.3 billion collected for the same period last year. The 19.7% year-to-year collection growth rate in 2006 is significantly higher than the 9.9% and 15.9% growth rates that were achieved in 2004 and 2005, respectively.

EMERGE Technical Assistance in Tax Administration

What is more important than assessing performance on the basis of meeting target collections is taking stock as to whether or not the Bureau's performance is improving more satisfactorily. Helping the Bureau improve its tax collection effort is where the EMERGE project has positioned a significant amount of its technical assistance resources for.

Under the reform theme of fiscal sustainability, EMERGE is providing technical assistance tasks designed to improve revenue collection and enhance public expenditure management. Four categories of technical assistance (TA) tasks, all of which have the potential of contributing to sustained increase in BIR revenue collection, are currently being implemented. The first category of TA activities addresses the improvement of the administration of specific tax measures, namely, capital gains tax on real properties (ONETTT or one time tax transactions) and excise taxes on cigarettes. ONETTT is an application that EMERGE has been developing and is currently being integrated into the Bureau's integrated tax system (ITS). With ONETTT, the Bureau can not only facilitate taxpayer compliance, but more importantly it can minimize tax revenue erosion from undervalued real properties. The Bureau becomes more capable of monitoring implementation and according to capital gains tax experts in the Bureau, this capability may improve collection by about Php150 million each year. A bigger leakage of capital gains taxes, estimated at nearly Php2 billion may be traced to the problem of the registry of new land titles without the payment of the capital gains taxes. This problem may be addressed in the future with improved coordination between the Bureau and the Office of the Register of Deeds.

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

The *second* category of TA tasks provides the benefit of improving taxpayer compliance, in addition to improving its tax collection. These tasks include the tax compliance verification drive (TCVD), streamlining of the tax rulings, and the training of BIR officials on the new Philippine financial reporting standards. In the TCVD TA activity, EMERGE is developing high level process maps to streamline the work of mobile revenue officers. Equipped with a more doable use of mobile phones to communicate with the Bureau's computers, the officers cause the immediate registry of taxpayers and retail cash registers. The increased capability of the Bureau to populate its computer database with information about taxpayers and cash registers has the potential of significantly increasing future year's voluntary and enforced tax collection.

In its tax rulings project at the Bureau, the EMERGE project has been requested to streamline and design a workflow for processing and monitoring the rulings issued by the Bureau. An earlier project, which USAID had supported at the Department of Finance, uncovered the existence of rulings that are inconsistent with the law and with similar rulings issued by various units of the Bureau. The investment of the EMERGE project is to provide the Bureau's legal division and the Commissioner a capability to monitor all rulings, assess their legality, improve the quality and facilitate the taxpayers' access to guidance from the Bureau, and prevent the annual drain to tax collection from the issuance of illegal rulings. As a result of this project, the Bureau will be issuing revenue orders and circulars aimed at correcting any incorrect guidance that had been issued before, which increases its tax collection.

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

The *third* category includes activities that provide BIR access to information on transport operators, compulsory third party liability (CTPL) insurance, and passenger insurance from other agencies of the government. The tax on CTPL insurance is supposed to yield twice what the BIR is getting presently. In 2004, the BIR collected about PhP 240 million on a tax base that was half of actual. This technical assistance for helping related government agencies work together and share information has the great potential of improving collection of so many other tax measures. The Insurance Commissioner had figured out that the BIR ought to have collected in 2006 about at least PhP 16 billion; the BIR collected only PhP 9 billion. The LTFRB receives rosy financial records from its public transportation companies, which apply for franchise renewal every year. That information can be shared to the BIR, which can improve its collection of the common carrier tax and the corporate income tax. These are but a few important doors to improving tax collection, and this third party information project of EMERGE has succeeded to identify.

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

Technical Assistance to the DBM

On improving public expenditure management, EMERGE has three on-going TA tasks for the DBM, namely, one for undertaking sectoral studies and review of the departmental re-structuring plans under EO 366; a training program on the Program Assessment Rating Tool (PART) of the Office of Management and Budget of the US government; and the e-LAMP to automate the system of processing, releasing, and reporting of selected lump-sum appropriations in the national government budget. Earlier, EMERGE also helped DBM reconcile its procurement manuals with the new Procurement Law.

Specific Tasks

Task 1.1.1.1 Improved One Time Tax Transactions (ONETTT) System

A review of project status confirmed that the Bureau of Internal Revenue (BIR) ONETTT project team, headed by Ms. Carolyn Ann Reyes, had submitted to eKonek initial results of user tests and synchronized testing, a documentation of discrepancy logs, a working list of exemptions, frequently asked questions (FAQs) on the application, a pilot acceptance checklist, and requirements of staging servers. An examination of discrepancy logs with eKonek revealed that a number of them were due to delays in reconciling the respective status reports of BIR and eKonek and differences in computer environments.

Policy issues material to the development of the application, such as the one property-one Certificate Authorizing Registration (CAR) policy and use of ordinary paper with security mark and barcode in lieu pre-printed forms, were resolved by the BIR ONETTT team together with Deputy Commissioner for Internal Revenue (DCIR) Lilia Hefti of the Operations Group.

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

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

First Component: Systems Study of the Tax Rulings Process. The systems study component is divided to three phases, namely, Phase 1: Systems Investigation, Phase 2: Systems Diagnosis, and Phase 3: Systems Design. Each phase yielded a report, all of which have been submitted to and validated by BIR representatives.

The highlights of the report for the systems investigation component were presented to Atty. Mapemaroma Cantillep, Chief of the BIR Law Division. The report documents baseline information on the conduct of the rulings process and concerns surrounding the process, as gathered from staffs of the head office and regional offices located in the cities of Baguio (to represent Luzon), Cebu (for the Visayas), and Davao (for Mindanao).

The report for the systems diagnosis component contains a stakeholders' needs analysis and performance review of the rulings process. Inputs were partially gathered from a focus group discussion with tax managers of consulting firms and leading members of the Tax Managers Association of the Philippines. BIR representatives also raised the need for stricter monitoring of the implementation of tax rulings of the first impression (or the so-called "mother rulings") by examiners.

The systems design report included a recommended interim tax rulings system. Although the recommended system has other elements, the report's focus is on the immediate implementation of the central electronic filing of rulings. This was in response to BIR's desire for a quick reform milestone. The system will use the BIR Portal and will give network and Internet access to lawyers preparing rulings.

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

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

In collaboration with a Land Transportation Office (LTO) study group, the motor vehicle registration track packaged its recommendations for process reengineering in an updated operations manual. The land transport franchising track similarly presented its recommendations for Land Transport Franchising and Regulatory Board (LTFRB) processes in a guidebook, the contents of which were verified by the technical staff. The risk assessment of the taxation of motor vehicle registration and transport franchising was likewise finalized.

Three points of integration towards improved regulation and taxation in the transport sector were identified. These are (1) LTO-LTFRB linkage, supported by a *colorum* vehicle database, (2) LTFRB-BIR linkage, supported by a tax clearance certificate database, and (3) LTO-Insurance Commission (IC) linkage, supported by a CTPL insurance database. The principles, general features, and draft memoranda of agreement (MOA) and rules and regulations governing the institutionalization of these linkages were agreed on in the final inter-agency integrative meeting held on November 7. Thereafter, a MOA signing ceremony was scheduled. LTO Chief Berroya, BIR Commissioner Jose Mario Buñag, and Insurance Commissioner Evangeline Escobillo confirmed their participation while the new leadership of LTFRB requested additional time to review the documents. The December 19 signing ceremony was thus cancelled.

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

Task 1.1.1.5c Insurance Commission Database

This TA task is an offshoot of the grant on the establishment of integrated systems of motor vehicle registration, land public transport franchising, insurance and taxation, which among others, recommended institutionalizing an LTO- IC linkage for the purpose of minimizing the

incidence of bogus CTPL insurance policies. Because the IC does not have a database of insurance transactions and most of its process and operations are carried out manually, meaningful database reconciliation and exception reporting are difficult to achieve. The objective of this task is to design and legally enable a database and clearing system for all compulsory insurance transactions within IC, of which the CTPL is the most problematic. The other compulsory insurance types are general, maritime, public passenger accident, and environment-related. The immediate task is to focus on the CTPL insurance.

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

The following investigative and baseline data gathering activities have been completed: (1) discussions with the company maintaining a similar private sector database for the Philippine Insurers and Re-Insurers Association (PIRA), (2) exploratory talks with representatives of the Land Bank of the Philippines (LBP), the prospective collecting agent of compulsory insurance premiums, and (3) discussions with Atty. Edwin Hizon, IC Chief of Regulations and Mr. Rey Vergara, IC Senior Insurance Specialist on legal issues, and management information requirements.

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

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

First Component: Industry and Systems Study. Data gathering for the industry study and assessment of the industry's potential tax revenue and tax leakage was completed in close coordination with BIR counterparts ACIR Nestor Valeroso, head of the Large Taxpayers Service; Ms. Teresita Anegeles, Excise Tax Division Chief; and Ms. Lisa Pallejera, head of the BIR task force on improving compliance with the excise tax on cigarettes. A preliminary report containing an appraisal of the Philippine cigarette industry based on Michael Porter's 5 forces model: industry rivalry, buyer power, supplier power, barriers to entry, and threat of substitutes, was submitted. Among others, the study presented the trend in consumption and production of cigarettes, market share of the different cigarette brands, company assets and inventory investments, and sources and supply of raw materials. The next step is to compare the trends and behavioral pattern discerned from the industry appraisal with the tax collection data of the BIR to make an assessment of the potential excise tax collection and/or tax leakages.

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

requested for research assistance in the tedious preliminary task of collating and comparing the provisions of the various issuances.

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

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

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

Second Phase: TCVD Automation (e-TCVD). The proposed system enhancements were presented to ISG, headed by Ms. Vicky de Leon. ISG made suggestions on zone naming, report generation procedures, database fields for payments through the banking system, synchronization of databases of the head and regional offices, software acceptance procedures, and minimizing conflicts between the electronic Integrated Tax System (e-ITS) and e-TCVD. The e-TCVD application subsequently passed systems and functional testing by ISG. It is noted here there is no duplication between e-TCVD and the Mobile Revenue Officer System (MROS).

Due to the busy year-end schedule of BIR staff, a one-month no-cost extension for this task was requested.

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

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

Phase 2. Bureau-Wide Training. EMERGE consultants are currently awaiting BIR's resolution of the Summary of Tax Issues. This will input into the training modules to be pilot-tested on selected examiners and later used for the bureau-wide training of examiners.

Because of the extension needed in Phase 1 and the busy December schedule of BIR, a no-cost extension for this task is being discussed among DCIR Hefti, Atty. Centillep, and EMERGE staff and consultants.

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

Office PMS and PMIS. The preparation of performance contracts as part of the establishment of PMS at the office level was undertaken in close coordination with the Policy and Planning Service (PPS), the designated PMS owners. Baseline information gathered in-house was used to draft performance contracts with clear and measurable indicators. The draft contracts were used for trial evaluations and the outcomes, in turn, were used to test the soundness of the instrument. Findings from these simulations and feedback from the BIR management committee were used to refine the performance contracts. At quarter's end, performance contracts for 15 offices have been developed, leaving only two offices without draft contracts.

System development for the performance management information system (PMIS) proceeded in collaboration with the Information System Group (ISG). The application was installed in BIR computers for the encoding of draft performance contracts, even as work on the emerging sets of indicators continued. Preparations for specifications sign-off and the conduct of the user acceptance test were likewise undertaken. Final system documentation also commenced within the quarter.

Change management was attended to through frequent coaching sessions with BIR staff who will be directly implementing PMS. The drafting of RMOs on PMS has also started.

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

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

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

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

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

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

Of the 78 plans submitted, 12 have been approved. These are the rationalization plans of the Office of the President (OP), Office of the Vice-President (OVP), Civil Service Commission (CSC), Career Executive Service Board (CESB), Housing and Urban Development and Coordinating Council (HUDCC), Palawan Council for Sustainable Development Staff (PCSDS), Philippine Racing Commission (PhilRaCom), Local Water Utilities Administration (LWUA), National Home Mortgage Finance Corporation (NHMFC), Partido Development Administration (PDA), Philippine Institute for Development Studies (PIDS) and Technology and Livelihood Resource Center (TLRC).

The delays in the submission of agency rationalization plans invariably affected the delivery of EMERGE TA, which consisted of preparing sectoral studies and attending meetings with agency change management teams, DBM, and the program executive committee to tackle the effects of policy directions on agency structure, and clarify agency and component unit functions, staffing patterns vis-à-vis the Organization and Staffing Pattern Guidelines.

The following agreements have been made to address the delay in implementing this task: (1) Sector experts could now be fully paid upon submission and DBM's acceptance of their reviews of the agency's draft rationalization plans, instead of waiting for the Executive Committee's acceptance of the final plans. (2) The choice of a sector expert from a list of nominated experts will be made by DBM Undersecretary Pascua, instead of the Secretary of Budget and Management. (3) A number of agencies citing internal problems with their component units as the cause for the delay in their submissions were advised to submit their drafts *sans* the plans for the problematic component units. The possibility of DBM drafting the plans for these units was also considered.

Mr. Ernest Leung, former finance secretary and former president of the Philippine Stock Exchange was contracted as the sector expert for finance. Two sectors remain without experts; the environment and administration of justice.

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

This task seeks to bring to the Philippines a staff member of the U.S. Office of Management and the Budget (OMB) or a knowledgeable private consultant to (1) conduct orientation seminars for DBM staff on PART of OMB, and (2) assess the feasibility of adopting PART in conjunction with the public expenditure reforms of the Philippine government.

Consultations with DBM counterpart Undersecretary Laura Pascua clarified expected outputs of the project. The best time for the 13-day visit of the consultant was determined to be March

2007. The curriculum vitae of prospective consultants provided by CARANA Corp. were reviewed. At quarter's end, Mr. Pfeiffer, a senior OMB staff member, was deemed to be most suitable person available for the task given his background and experience.

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

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

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

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

The initial systems audit phase consisted of field interviews, ocular visits to offices, and an FGD with selected non-government organizations (NGOs). The objective of the FGD was to identify the NGOs' information requirements for involvement in the monitoring of releases and expenditures of lump-sum appropriations. The output of the audit phase is a diagnostic report, which was completed in collaboration with DBM counterparts. The report contains a documentation of workflows and accompanying diagrams; data sources, and formats; information technology system representations and other technical specifications; and current and targeted content of pertinent data sets and the website.

Systems design is currently underway. System requirements specifications (SRS) are being drawn up and will be signed off by agency counterparts before being incorporated in the functional design.

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

Expanded Trade and Investment

The different tasks under this reform theme are designed to create an enabling environment that will facilitate and expand trade and investments in the country. Trade facilitation will be promoted through the TA at the Department of Agriculture (DA), Bureau of Customs and the Bureau of Product Standards (BPS). The TA at the DA on harmonizing and streamlining the

administration of sanitary and phytosanitary measures and the National Single Window are expected to reduce the average time required for the processing of SPS regulated agricultural imports. On the other hand, the establishment of the standards and conformance portal at the BPS will provide a seamless facility that enables the business sector to have easy access to information on standards and technical regulations and conformity assessment requirements of the country as well as that of the country's trading partners.

The business community's access to this information and their compliance with the requirements of their trading partners will facilitate trade, improve their market access and reduce their business transaction costs. Similarly, the eventual accession of the country to the Revised Kyoto Convention will improve customs procedures and, hence, reduce the time required for imports as well as exports to be cleared at the border and reach their destinations. The above trade facilitation measures are complemented by building the capacity of the government and the civil society, through the global trade e-learning program, to understand and participate in international trade discussions and negotiations.

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

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

Specific Tasks

Task 2.1.1.1 Assessment of the economic impact of trade liberalization

EMERGE participated in the two (2) roundtable discussions with the academe organized by GTZ on October 23 and December 13. The discussions in these meetings were placed in the context of the TA request of Tariff Commission Chairman Edgardo Abon for EMERGE to assess the impact of the country's trade liberalization program. In these meetings, the appropriate issues to be addressed by the impact assessment and the methodology to use were identified. On the latter, the use of industry studies over CGE models was agreed upon. To ensure comparability of results across industries, the core methodology of the industry studies will be first developed prior to conducting the studies.

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

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.*

For this quarter, the Parayno Consultancy Services completed the gap analysis on the standards and transitory standards of the General Annex and Specific Annex of the RKC. The team also held separate meetings and presentations of their draft reports to the PhilExports Board, Export Development Council (EDC) Executive Committee and the Bureau of Customs (BOC)-RKC Management Committee. The objectives of the presentations were (i) to get feedback and comments on the initial draft reports and (ii) build consensus with all concerned stakeholders on the national strategy on the country's accession to the RKC.

The draft reports have been uploaded to the project's website: www.rkc.phil.net for easy access by all stakeholders and for their comments. EMERGE also reviewed the draft reports. The consultant team, however, will address EMERGE comments after they receive the comments from the stakeholders, particularly from the Bureau of Customs. The latter, however, was not able to submit its comments during the quarter, causing the team to request another no cost extension until February 2007.

This task is expected to be completed next quarter with the submission of the final reports.

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

Bureau of Customs (BOC) Post Entry Audit

Ramon and Post Entry Audit Group (PEAG) Officer in Charge, Atty. Rolando Ligon, Jr. worked to finalize the TOR for EMERGE TA to PEAG. The task includes developing the business procedures of PEAG staff: pre-audit work, field audits, and post-audit work. Besides streamlining these procedures and drafting manuals of procedures, Atty. Ligon wanted to review the current legal framework of PEAG and update the customs orders to legally enable the reforms. Ligon mentioned that he would need information from the US Customs and Border Protection on its customs rulings, particularly those related to audit, as inputs in formulating the Group's position on requests of importers for customs rulings regarding customs audits. Ramon drafted the TOR for this proposed activity.

BOC-Performance Management System (PMS)

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

Next quarter, with USAID approval, EMERGE plans to start the above TA activities. It will also prepare a TOR on customs modernization.

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

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

For this quarter, the CVAI consultant team completed their first draft reports on the following: (i) SPS policy statement; (ii) architecture of border processes; (iii) interim organizational arrangements for the dual agency SPS administration; (iv) streamlined business procedures (for import clearance/permit; import inspection; licensing, registration and accreditation; and import inspection of wood packaging materials); and (iv) export processes. The draft reports were drawn from the discussions during the various meetings and workshops conducted by the team with the SPS Technical Committee created by DA Secretary Panganiban at the beginning of the TA to work with the team. The workshops were attended by representatives of the eight regulatory agencies of DA, the Policy Research Service, the IT Center for Agriculture and Fisheries, and the IBM/GSI team working on the DA e-certification effort.

An important meeting held this quarter was that of EMERGE and the SPS team with DA officials (Usec Paras, Assistant Secretary Montes and Asec Olalia) on November 24. The meeting was at the invitation of Asec. Montes. The DA officials were instructed by DA Secretary Yap to introduce controls in the issuance of veterinary and phyto-quarantine certificates. The Secretary has been informed that there is a market for these certificates and shipments of agriculture and food imports are coming in without the proper clearance from DA SPS agencies. The DA officials instructed the SPS team to work with the Technical Committee to formulate a two-step process that requires the issuance of an import entry permit upon completion of transactions showing that imports are to be undertaken by the importer. This step is needed because the import clearance does not require proof of actual importation, and it was observed that some importers sit on their clearances or sell them to others, making it difficult for the DA to monitor the market.

These developments have increased the importance of the TA work which EMERGE has been providing to DA: streamlined SPS business procedures and lower transaction costs for the business sector.

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

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

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

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

Several meetings and consultations were held this quarter involving EMERGE, BPS, ECA-EU and SYSTEMA. The primary purpose of the meetings was to address the overlap in the TA being provided by EMERGE and ECA to the Bureau of Product Standards (BPS). To avoid duplication and ensure complementation between the two donors, a major activity this quarter was spent on defining the scope of work and assistance to be provided by each. Given that ECA has already finalized its TOR, BPS Dir. Jesus Motoomull requested EMERGE to take on the portal's functionalities which are not covered by ECA.

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

Based on the results of the meetings, Oliver Malabanan, EMERGE consultant for Phase 1, finalized the design and specifications of the portal, with a clear delineation of the functionalities to be provided separately by EMERGE and ECA. The design and specifications were then approved and accepted by the BPS and the S&C Portal Project Steering Committee in a meeting on Dec 18. This completes Phase 1 of the EMERGE TA.

EMERGE also prepared the TOR and budget for Phase 2. The components and activities of Phase 2 were also approved by the S&C Portal Project Steering Committee. These include: (i) systems development and customization; (ii) content processing and migration to the portal; (iii) enhancement of the capability of the National TBT Coordinating Committee; and (iv) pilot testing and launching of the portal.

For next quarter, EMERGE will (i) seek USAID approval of the TOR for Phase 2; (ii) organize a team of consultants to work on Phase 2.

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

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

The on-line elective courses (Courses 6 & 7) were offered in October, where the e-learners took two courses out of 5 courses to choose from. The e-learners then attended the face-to-face workshops corresponding to the 2 courses they chose. The face-to-face workshops were: (1) Trade Facilitation on Oct 2-3 with 46 & 43 participants on the 1st & 2nd day, respectively. Speakers were: Mr. Vicente Paolo Yu (South Centre); Mr. Bert Domomdom (Customs Broker) and Mr. Sergion Ortiz-Luis (PCCI); (ii) Trade in Agriculture on Oct 5-6, with 57 and 50 participants on the 1st & 2nd day, respectively. Speakers were: Ms Carin Smaller (IATP); Dr.

Ramon Clarete (EMERGE); DA Usec Segfredo Serrano; Ms. Riza Bernabe (Centro Soka, Inc); Mr. Jose Maria Zabaleta (Philippine Sugar Millers Assoc); (iii) Trade in Legislation on Oct 19-20 with 84 and 68 participants on the 1st day & 2nd day, respectively. Speakers were: Judge Leo

Status of Completion	
Status	Number of Participants
Completed all 8 courses	125
Completed 7 courses	57
Completed 6 courses	37
Completed 5 courses	40
Completed 4 courses	11
Completed 3 courses	22
Completed 2 courses	56
Completed 1 course	60
Total	408

Gordon (US Court of International Trade; Mr. Jai Motwane (US International Tariff Commission); and Atty Edgardo Abon (Phil. Tariff Commission)

The on-line Integrating Course (Course 8) was offered in November. The final Integrating Workshop and Graduation was held in Dec 14. Prof Jacques Pelkmans conducted the workshop with 85 participants. The highlight of the Graduation was the e-learners' dialogue with WTO Director General Pascal Lamy via webcast. Had the ASEAN Summit in Cebu not cancelled, Lamy could have delivered a face-to-face dialogue with the e-learners on December 12.

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

The IATP Secretariat is confident that those who have completed at least 5 courses will complete the Program on or before the deadline. In addition, 56 PhilJA participants have also completed the abridged Global Trade program.

The IATP Secretariat is expected to submit to EMERGE its terminal report and evaluation of the program in February 2007.

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

With respect to the proposed guidelines on GM food labeling, the BFAD had not received any objections from the stakeholders to the labeling guidelines after posting the document on its website in June 2006. BFAD Director Leticia Gutierrez endorsed the guidelines to the DOH Secretary for his consideration and issuance as a DOH Administrative Order.

Ramon attended a briefing at the DOH by Dr. Oscar Gutierrez from BFAD on December 20 on the labeling guidelines for DOH Undersecretary Alex Padilla, who is in charge of policy and regulatory matters. BFAD briefed him in its effort to follow up on the action of the DOH Secretary on the proposed DOH Administrative Order (AO) on the labeling guidelines. Representatives from the Biotechnology Coalition of the Philippines, headed by its new President, Dr. Nina Barzaga, were also at the meeting.

Usec. Padilla informed those in the briefing he has not heard any objection to the proposed AO, and he would be happy to endorse it for signing by the DOH Secretary when the policy group transmits the document to his office. A meeting is planned on this matter in January between the head of the policy group and Usec. Padilla.

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

With respect to the proposed 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, BFAD has not raised any issues. However, BFAD will revisit this matter once DOH Secretary has issued the Administrative Order on GM food labeling.

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

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

During this quarter, the Biotech Coalition of the Philippines (BCP), the vendor for this task, conducted 4 institutional capacity building (ICB) activities for policymakers, regulators, technology developers and LGU officials; and 7 information, education and communication (IEC) activities for LGU officials, academe, students, farmers and business organization. Please refer to Table 3 below for the details of these activities.

For next quarter, BCP will continue to conduct ICB and IEC activities on modern biotechnology.

Table 3
Summary of Institutional Capacity Building and IEC Activities
Biotechnology Coalition of the Philippines
October – December 2006

Type of Activities	Trainings/Workshops/ Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
Institutional Capacity Building	Seminar on Roundup Ready Crops	Guideline and Protocol Development	14 November 2006	4.5	NAFC Conference Hall, Department of Agriculture	55 (16 Male, 39 Female)	policymakers and regulators, technology developers
	Technical Meeting on Status of IRM Studies and Field Reporting & Monitoring	Guideline and Protocol Development	07 December 2006	4.5	Crop Protection Division (CPD) Conference Room, Bureau of Plant Industry, Manila	23 (11 Male, 12 Female)	policymakers and regulators, technology developers
	Echo Seminar on Discussions during the 6th Session of the Codex Task Force on Food Biotech	Guideline and Protocol Development	08 December 2006	4	Apacible Conference Room, Department of Agriculture	41 (14 Male, 27 Female)	policymakers and regulators, technology developers
	Technical Meeting 1 on the Renewal of GM Permits	Guideline and Protocol Development	29 December 2006	4	Conference Room, Office of the Dean, College of Agriculture, UP Los Baños	31 (13 Male, 18 Female)	policymakers and regulators, technology developers
Information Education and Communication	Jose G. Burgos, Jr. Awards for Biotech Journalism (2 nd Gawad Galing for Biotech Journalism)	Public Seminar & RTD on Modern Biotech	08 November 2006	5	Club Filipino, Greenhills, San Juan	70 (36 Male, 34 Female)	media, policymakers, APEC delegates
	Public Seminar on Modern Agricultural Biotech for Cagayan	Public Seminar & RTD on Modern Biotech	21 November 2006	7.5	Cagayan Valley Lowland and Marine Research Outreach Station (CVLMROS), Iguig, Cagayan	73 (44 Male, 29 Female)	LGU officials (executives and technical officers), students, media
	Public Seminar on Modern Agricultural Biotech for Isabela	Public Seminar & RTD on Modern Biotech	23 November 2006	7.5	DAR Regional Office, San Fermin, Cauayan City, Isabela	87 (46 Male, 41 Female)	LGU officials (executives and technical officers), farmer/coop leaders
	Seminar Series and Study Tour for Select Region 2 College Students	Public Seminar & RTD on Modern Biotech	27-30 November 2006	36	Philippine Carabao Center, Nueva Ecija; Philippine Rice Research Institute, Nueva	78 (36 Male, 42 Female)	Students

Type of Activities	Trainings/Workshops/ Seminars	Activity Type	Date	Duration (hours)	Place & Venue	Participants	
						No.	Classification/Type
					Ecija; Institute of Plant Breeding, UPLB; International Rice Research Institute		
Information Education and Communication (cont.)	Public Seminar on Modern Agricultural Biotech for Ifugao	Public Seminar & RTD on Modern Biotech	14 December 2006	7.5	Potia Bgy. Hall, Alfonso Lista, Ifugao	76 (43 Male, 33 Female)	LGU officials (executives and technical officers), academe, students
	Seminar-Workshop on Economic Opportunities in Biotech for Iloilo	Seminar-Consultation on Biosafety/ Biocommerce	05 October 2006	8	Leganes Multipurpose Building, Leganes, Iloilo City	57 (32 Male, 25 Female)	LGU officials (executives and technical officers), farmers, investors/ business organizations
	Seminar-Workshop on Biotech Economic Opportunities for N. Mindanao	Seminar-Consultation on Biosafety/ Biocommerce	14-15 December 2006	18	Marawi Resort, Marawi City, Lanao del Norte	112 (66 Male, 46 Female)	LGU officials (executives and technical officers), farmers, academe, investors/ business organizations

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

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

a. PRSV Papaya – During this quarter, the research team under the leadership of Dr. Desiree Hautea accomplished the following. On *product development*, two confined trial sites were identified and developed; bio-efficacy testing and testing against other PRSV strains of candidate transgenic lines were undertaken; and prepared seedling materials to be transplanted to the isolated/confined field trial. On *regulatory file development*, studies were undertaken on molecular characterization of candidate transgenic lines; initiated new regulatory studies; the confined trial sites were inspected by UPLB-IBC and BPI Biotech Core Team; and completed the submission of additional regulatory data to obtain certificate of satisfactory completion of contained trial from NCBP.

Implementation of some of the activities was delayed because the IPB-UPLB Genetics Laboratory is undergoing rehabilitation after it was damaged by super-typhoon “milenyo.”

For next quarter, the following activities will be implemented: (i) start confined trial planting activities; (ii) continue with development of product and regulatory file packages; and (iii) in-country training/workshop for PRSV papaya partners.

b. FSBR eggplant – This task is also under the leadership of Dr. Desiree Hautea. Accomplishments for the quarter include the following: On *product development*, the research team conducted the 2nd batch of backcrossing involving Dumaguete Long Purple; and bio-efficacy testing and mass-rearing, in particular, modification of Mahyco’s artificial mass-rearing technique to suit local FSB populations. On *regulatory file development*, the area proposed for the confined trial site was identified, assessed, developed (70%) and inspected by the UPLB-Institutional Biosafety Committee (IBC) and BPI Biotech Core Team; entomological studies were continued to gather baseline data; new regulatory studies were initiated, in particular, GMO genetics, resistance to other major diseases, mating behavior, and comparison of morphological characteristics. A monograph on the biology of eggplant was also started, a requirement for the filing of application for confined trial.

Similar to PRSV papaya, some of the activities have been delayed due to the rehabilitation of the IPB-UPLB Genetics Laboratory after it was damaged by super-typhoon “milenyo.” Likewise, problems were encountered in FSB mass-rearing using plastic trays used by Mahyco, which resulted in insect deaths and fewer test insect populations. Continuous rainfall caused the delay in the completion of site development.

For next quarter, among other things, the following activities will be undertaken: preparation of the final manuscript on monograph on the biology of eggplant; development of Site 2 confined trial site; 3rd backcrossing; continued development of product and regulatory file package; and an in-country training/workshop for FSBR eggplant partners.

c. Delayed ripening papaya – This task is under the leadership of Dr. Evelyn Mae Mendoza. Accomplishments for the quarter include the following. On *regulatory activities*, application for field testing was submitted to DA-BPI on Nov 28, after revising the required documents based on the comments of the UPLB-IBC. Permission to use the private farm of Mayor Bruno Ramos

of Bay, Laguna as the site of the field testing has been obtained. Related to this, informal consultations were conducted on Nov 17 with the officials of Barangay Tranca where the field testing will be conducted, and on Dec 15 with the teachers and students of the Masaya National High School.

On *field evaluation*, seeds were sown on the 3 transgenic lines and the control non-transgenic and Davao Solo and established them in an isolation net room. The plantlets are ready for replanting in the field on January 2007. The field has also been cleaned and fenced as per requirement of the DA-BPI Biosafety team. The horticultural traits of the selected trees in the screen house were also continually measured. These traits include fruit quality traits like days to maturity, days to full yellow from color break, days to fully ripe from full yellow, fruit weight, peel firmness, etc.

On *molecular analysis*, the seedlings to be planted in the field were subjected to PCR screening to determine the presence of the transgenes. For biochemical and nutritional analysis, the papaya fruits from the 3 lines and nontransgenic Davao Solo were harvested and submitted for proximate analysis to the National Institute of Biotechnology and Microbiology. The results of the analysis are expected in January 2007.

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

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

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

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

Third, the technical working group writing the implementing rules and regulations (IRR) of the National Biosafety Framework (NBF) held their third meeting on 25 October to discuss, among other things, the issue of socio-economic considerations. An initial agreement to issue a joint guideline between DA and the Department of Environment and Natural Resources (DENR) was reached based on the DA submission on how to handle environmental impact assessments for products of modern biotechnology.

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

Task 2.2.2.1 Diagnostic assessment on investment climate in priority sectors

During this quarter, EMERGE held separate meetings with DTI Undersecretary Thomas Aquino and BOI Director Raul Angeles to give them copies of the diagnostic study on improving the

investment climate for the coconut industry. Both officials were appreciative of the EMERGE TA. The initial steps on how to address the impediments to investment in the industry were discussed. Usec. Aquino will take up the matter of promoting such investments in the DTI-led national clusters program, which looks into investment coordination opportunities in key industries that the government is promoting. He suggested that a cluster for the emerging coconut products could be set up, consulting DOST and DA on the matter. Dir. Angeles discussed a BOI plan to organize a business development team to spearhead the promotion and development of the emerging coconut products as priority for investment.

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

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

Task 2.2.2.2 Improving the business development support services for SMEs

In the last quarter, the NCC wanted EMERGE to work on the details and prepare the TOR for this task after the Philippine Congress enacts the credit bureau law. However, EMERGE received word from BSP Deputy Governor Espenilla that BSP has other resources for what EMERGE and the NCC had planned to do to help operationalize the credit bureau. Espenilla would rather EMERGE continue working on real estate appraisal reforms. Next quarter, EMERGE will take up this matter with the members of the RESCOP.

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

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

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

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

*The **National Competitiveness Summit** adopted the recommendations of Oct 5 FDI Workshop organized by AmCham for inclusion in **National Competitiveness Action Agenda**. National Competitiveness Summit was held Oct 6 at Malacañang with 300 participants from private and public sectors. Summit focused on improving competitiveness as measured by leading international surveys in which Philippines has increasingly lagged behind dynamic Asian economies. Meeting endorsed Action Agenda focused on*

competitive human resources, efficient public and private sector management, effective access to financing, improved transaction flows and costs, seamless infrastructure network and energy cost-competitiveness and self-sufficiency. It also included recommendations of FDI Workshop sponsored by AmCham. President Arroyo said she would establish public-private National Competitiveness Council to monitor implementation. Among specific announcements at Summit: Sec. Mendoza will extend driver's license from 3 to 5 years and issue in 30 minutes; ICR cards will be valid for 5 years; the President targeted 30% improvement in English of high schools graduates by 2010 (currently under 10%); and she signed presidential directives to improve competitiveness.

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

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

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

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

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

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

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

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

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

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

CIAC president Luciano said three more low cost carriers are starting service to **DMIA.** Hong Kong Airways started 4 weekly flights to Hong Kong on December 10. Tair Airlines will serve Riyadh-Jeddah-

Clark route 4 times weekly beginning January 2007. Thai Air Asia will start flights from Bangkok in February 2007.

AmCham and the Joint Foreign Chambers (JFC) held a **Workshop on Foreign Direct Investment** (FDI) on “How to Attract \$3 Billion a Year” Oct 5 in Makati with 400 participants. Keynote speech was given by former President Fidel Ramos and a policy statement by President Gloria-Macapagal Arroyo. Almost 250 business and industry experts, including public sector officials, participated in breakout sessions on Constitutional and Legal Restrictions on FDI; Energy, Power and Biofuels; Infrastructure: Subic-Batangas Corridor; Health care/Retirement and Tourism; IT/ITES; Manufacturing; and Mining. DTI Secretary Favila received Workshop Recommendations. Both local and foreign press covered event, as well as several television stations which broadcast key speeches live. (Speeches and reports are available at www.amchamphilippines.com.) The workshop for first time estimated potential FDI inflows for Philippines. For the sectors covered by breakout sessions potential FDI was estimated in range of \$1.7B (pessimistic), \$4.0B (status quo) and \$8.9B (optimistic) for the 2007-10 period. To achieve latter, participants recommended an extensive action agenda.

JFC released a Statement on Philippine **National Competitiveness** drafted by AmCham. PCCI Philippine Business Conference resolutions included most AmCham Roadmap, ICIP priority infrastructure projects and the FDI Workshop Action Agenda.

AmCham sent letter to Senator Lacson, chair of Senate Committee on Civil Service and Government Reorganization, stating support for passage of **anti-red tape bill**.

JFC sent letter to Congressman Cua endorsing proposed legislative agenda for **competitiveness**, a 20-page letter to SWMC chairman Recto proposing improvements in **anti-smuggling bill** passed by House, and issued a statement on **politically-motivated killings**. Major broadsheets covered JFC statement. PGMA ordered DILG and PNP to conduct dialogue with JFC and foreign business community.

ICIP Senior Advisor met with World Bank consultants and Peter Wallace providing technical advice to DOF and DTI on **future fiscal incentives regime**.

AmCham briefed a visiting **US-ASEAN Business Council delegation** composed of 14 representatives from nine companies led by Council President Matthew Daley and US-Philippines Business Council chairman and Mirant SVP Robert Driscoll. Among issues discussed were reforms to improve RP competitiveness, pending legislation (fiscal incentives rationalization, Clark SEZ perks, and credit bureau), national security (terrorism and NPA insurgency), IPR protection, biofuel use promotion, and ASEAN integration. Delegation met with President Arroyo, Senate President Villar, Sen Recto, Sen Gordon, DOF Sec Teves, DTI Sec Favila, DOE Sec Lotilla, NEDA Dir Gen Neri, DBM Sec Andaya and Deputy BSP Governor Gunigundo.

The AmCham Legislative Committee reviewed **legislative priorities** which have chance for final passage in few days remaining for Congress to pass legislation and agreed to write House Speaker in support of Credit Information Bureau and possibly bills on Pre-Need Code and PERA. The issue of suspension of gas and geothermal royalty payments in House-passed renewable energy was discussed. Land titling bill was identified as important reform.

AmCham ED and ICIP staff attended Taxes and Tariffs Committee meeting with **DOF Usec Gil Beltran**, who discussed efforts for improving tax administration, revenue collection, curbing

graft and corruption, and proposals for capital market development. ICIP Senior Advisor raised concerns about **SB 2411**.

ICIP Senior Advisor and representatives from BPAP, ECCP, SEIPI, Ford and Intel called on **Senators Angara, Drilon, Lim, Magsaysay and Pimentel** separately to discuss SWMC-reported **SB 2411 on rationalization of fiscal incentives**.

At Quarterly Roundtable of Wallace Business Forum, ICIP Senior Advisor raised **SB 2411 on fiscal incentives** with DOF Sec. Teves and Senate President Villar. Teves explained that GRP is going to improve infrastructure and education in order that ITH will not be needed to attract investments. He believes ITH should be phased out over several years in anticipation of the to-be-improved investment climate and that—should these improvements be insufficient—then the phase-out can be extended. Sen Pres Villar indicated that he is aware of the many objections raised to SB 2411 by business groups and has asked Sen Recto to work out a bill acceptable to industry before the Senate proceeds with interpellation and floor passage.

ICIP staff attended PhilExport technical working group on **SB 2411 on fiscal incentives** and discussed strategy to best address concerns about pending legislation. Representative of Senator Roxas will draft umbrella statement on the bill. Group agreed to continue meeting with senators and to increase voice in press.

ICIP Senior advisor spoke with House Trade and Industry Committee chair Junie Cua to urge cautious and considered approach in meetings held to rework **SB 2411** and to fully take into account industry views. Final legislation should reflect global best practices and not reduce Philippine competitiveness.

Amdesk BOI discussed DTI position on **SB2411** with BOI officers. ICIP Senior Advisor discussed industry concerns on SB 2411 re **rationalization of fiscal incentives** with Presidential Advisor for Competitiveness Roberto Romulo. AmCham wrote DTI Sec Favila asking to meet together with other business groups regarding **SB 2411 on fiscal incentives rationalization**.

ICIP Senior Advisor and Amdesk BOI organized and attended meeting with DTI Sec. Favila to discuss status of **Rationalization of Fiscal Incentives** legislation. ECCP, JCCP, KCCP, PCCI, SEIPI and auto parts association attended. AmCham was represented by VP country head of Coca Cola, head of Ford Phils, ICIP Senior Advisor and Amdesk BOI. Sec. Favila explained he had conveyed industry concerns re Senate bill in series of meetings seeking to narrow differences on SB 2411. Sen. Recto is showing some flexibility. DTI is explaining that ITH is needed until infrastructure and corruption issues are much improved, thus ITH functions as “insurance against the cost of doing business.” Teves and Recto are proposing a 3-year phase-out of ITH, with extension possible if infrastructure not built in time. Future decisions on which investment activities receive ITH will be decided in consultation with industry and Congress. President Arroyo is not “comfortable” with SB 2411. Teves agrees to support export industries and indirect/constructive exports. A positive list of investments to incentivize will be created. Same meeting discussed two **Clark bills passed in Senate** and noted House-passed bill will extend ITH option under 1995 PEZA Act to future investors at Clark and Subic but Senate-passed bill does not.

AmCham ED and ICIP Senior Advisor attended Wallace Business Forum Quarterly meeting where Senate President Manuel Villar told large group of MNCs that Senate hopes to complete **anti-terrorism and two Clark/BCDA bills** before Christmas recess begins Dec 22. AmCham

LegCom Chair Forbes urged final Congressional passage of **3 financial reform bills**: Credit Information Bureau (already passed by Senate), PERA and Pre-Need Code. Villar said he asked Banking Committee Chair Angara to be prepared to support passage of all three, as well as Lending Company reform bill.

AmCham president Dallas sent letter to House Speaker De Venecia, urging immediate passage of HB 5948 on establishing **credit information system** in RP.

Amdesk BOI discussed with BOI Usec Elmer Hernandez concerns regarding **revised IRR of E.O. 51 or Milk Code** raised by COCUSA and implications for FDI in RP.

Amdesk BOI called attention of BOI regarding imposition of **safeguard measures** on importation of sodium tripolyphosphate raised by Procter and Gamble (US) and implications on viability of manufacturing detergents in RP.

Responding to request from PNCC Chairman and CEO Art Aguilar to support 25-year extension of **PNCC franchise** before the Senate, AmCham ED wrote Aguilar to explain AmCham prefers privatization of PNCC or limitation of its broad franchise and separate franchise holders for different toll roads.

JFC sent separate letters to Senate President Villar and House Speaker De Venecia urging passage of pending legislation on **PERA and Pre-Need Code**. Letters were covered in BusinessWorld, BusinessMirror and Philippine Daily Inquirer.

ICIP Senior Advisor and AmCham Transportation Committee Co-Chairman met with Mr. Jin Wakabayashi, new JBIC representative in the Philippines, to review GRP process to implement key infrastructure projects. JBIC currently has 45 projects ongoing but for three years has not started new projects because GRP has not made counterpart funds available, which is expected to change soon with improved GRP revenue situation.

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

In this quarter, Ramon and Myrna attended a meeting with Director Peralta of the IPO and Ms. Amelou Lim. This meeting picked up from where EMERGE and IPO left off when DG Cristobal asked that the implementation of its requested TA begin early next year. Dr. A. Sajid, from PACT, also attended the meeting. EMERGE is waiting for a schedule from the IPO when to conduct the training.

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

EMERGE has decided to drop this Task. The project team has been 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. Since this assurance has not come, EMERGE is no longer pursuing this task.

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

During this quarter, the accomplishments of the EMERGE consultant team (Nelia Halcon and Ed Coronel) include the following: (i) completion of the draft EITI financial reporting templates; (ii) completion of the draft manuals on the preparation of the financial reporting template; and (iii)

consultation meetings with the LGU officials of Benguet and Philex Mines on Dec 3 and Dec 4, respectively.

Present during the meeting in Benguet were the following: Benguet Gov. Borromeo Melchor, Vice-Governor Crescencio Pacalso, Mayor Mario Godio of Itogon, Mayor Jose Baluda of Tuba, Barangay Capt. Ignacio Rivera of Camp 3, Tuba, Barangay Capt. Eddie Almazen of Ampucao, Itogon, and MGB Dir. Horace Ramos. The LGU officials expressed their support to the project. They are also thankful that there is a project like this. They expressed their concerns on the “current practices” on tax receipts.

The officials of Philex Mines who attended the meeting were: Roselyn Dahilan (Dept Manager, Finance); Geraldine Ateo-an (Dept Manager, Internal Audit); Redempta Baluda (Division Manager, Environment and Community Relation Division); Rodolfo Saguid (Asst. Manager, Environment Div; and Feliciano Diso (OIC, Community Development Dept). These officials also expressed support to project. They also raised concerns on the use by the LGUs of the mining funds required under the Mining Act. The funds have become a source of corruption and abuse by the LGUs.

Making the arrangements for presentation of the TA with the LGUs in Zamboanga del Norte and Siocon Municipality, where TVI Resources Development’s Canatuan Mining Project is located, proved difficult. Governor Rodolfo Yebes is critical of TVI’s operations in his province because of perceptions that the company is not paying the appropriate taxes to the LGUs. This is actually an issue that the project addresses, thus the confidence remains high that the LGUs will be supportive of the activities of the project. There are potential issues of whether there are ways in which payments made a mining company to an LGU can actually be hijacked such that they do not actually reach the LGU. This is obviously a sensitive issue to discuss with LGUs. On the other hand, the TVIRD has committed to support the activities of the project – precisely because they see it as a means to clarify with the LGUs the tax payments and economic contributions that its operations contribute to the area.

The selection of a firm to conduct the financial audit was not accomplished last quarter because the draft financial reporting templates, which will be used to define the scope of work of the audit firm, were completed only in December. This activity will be the priority early next quarter. Other activities next quarter include: (i) presentation by the Chamber of the TA to the Mining Development Council (MDC); (ii) consultation meetings with the LGUS in Zamboanga del Norte and officials of the TVIRD; and (iii) the financial audit.

Task 2.2.2.6b Manpower and remuneration assessment in the mining industry

The Chamber of Mines submitted to EMERGE a grant proposal to conduct an assessment of manpower needs in the mining industry. The EMERGE Grants Committee evaluated the proposal and informed the Chamber of its comments. The comments were meant to improve the proposal in order for it to better address the concerns of the mining industry regarding its manpower. Ms. Nelia Halcon, who is the Executive Director of the Chamber, expressed a concern that the comments and suggestions for improvements from the project appeared to complicate the activity. Next quarter EMERGE will try to help the Chamber understand the importance of the suggested improvements and produce a revised TOR, which will be submitted to USAID for approval.

Infrastructure

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

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

Related to this, the recent EMERGE technical assistance on ports and shipping has already led to the elimination of unnecessary fees and charges imposed on RoRo vessels, and thus, to a reduction in cost of transport. The Department of the Interior and Local Government issued a memorandum circular instructing all local mayors and provincial governors to stop the collection of wharfage dues, the double charging of RoRo terminal fees and illegal collection of fees and taxes by some LGUs. Recently, by virtue of EO 170-B, private, non-commercial ports can now legally be used in commercial RoRo operations. These reform efforts in ports and RRTS will reduce transport costs for the traveling public and the business sector and result in greater integration of local markets and increased economic and business activities in the regions outside Metro Manila. The final impact will be local economic growth and poverty reduction.

In the same vein, EMERGE TA in road transport and build-operate-transfer (BOT) contract governance have laid down the basis for more efficient road infrastructure and greater private sector participation (PSP) in BOT projects in the future. In road transport, the poor state of roads drives up vehicle operating costs. The Road Board Secretariat has submitted to the Road Board several recommendations to improve the implementation of the Road Fund for road maintenance. For the Philippines to latch on to the renewed international interest in

infrastructure investments and financing, it needs to rework the BOT Law and regulations to encourage and better manage PSP, while removing unreasonable risk assumptions for government and moral hazards for private parties. NEDA and other government agencies have amended the implementing rules and regulations of the BOT law and are working on a draft legislation to revise the BOT law. The government is engaged in a serious review and restructuring of its processes and procedures to encourage greater private sector participation in infrastructure. The expected result will be increased private investments in infrastructure.

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

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

Another important area of reform in the infrastructure sector is the privatization of specific public sector assets. The successful privatization of government assets and corporations in the past has contributed to national government revenues, the development of the capital markets and private sector participation in business activities instead of the government being engaged in business. With the current fiscal situation, the Department of Finance (DOF) is once again looking at privatization as a potential source of revenues and greater private sector participation in the economy. In 2006, the revenue proceeds from privatization were 5.8 billion pesos, exceeding programmed revenues of 500 million pesos. The 2006 privatization proceeds are highest in a decade. Except for 1994 and 2005, privatization has performed below target and this is the second year in a row that it has exceeded the government's target revenues. The successful sale of Maynilad to private investors signals government's serious effort in privatization. The government sold the controlling stake to the highest bidder at its acquisition cost (approximately \$56 million). The winning bidder was selected as the one willing to commit the largest amount of additional capital into the company. The winning consortium, DMCI Holdings, Inc. bid \$447 million of committed capital with the runner up, Manila Water, bidding \$400 million. The government is currently working on the privatization of PhilNico, Al Amanah Bank and other state-owned assets.

Specific Tasks

Task 3.1.1.1b Reduce Inter-island Shipping Costs—Ports

The EMERGE Ports Team was tasked to assist and provide TA to NEDA Director General and Socio-economic Secretary Romulo Neri and the Department of Agriculture (DA) Sec. Arthur Yap (former Presidential Management Staff Director General) to promote greater competition and further the development in the country's port sector. This was in response to the sector's inefficiencies that increase the cost of transportation.

In this quarter, the Ports Team focused on policy advocacy through participation in various meetings of the Infrastructure Monitoring Task Force, and private/business community (PCCI, EDC). The Task Force's activities were focused on improving the implementation of infrastructure projects in Northern Luzon (Ilocos Sur and Ilocos Norte). The team attended meetings of the Infrastructure Monitoring Task Force and the Networking Committee on Transport and Logistics of the Export Development Council (EDC) chaired by Mr. Meneleo Carlos/Federation of Philippine Industries (and co-chaired by Mr. E. Basilio).

- a) *Domestic Port Modernization* – the Team developed various policy options to promote modernization as well as effective competition in the port sector. The Team's overall goal in this matter is to help in the implementation of Executive Order 308, which basically calls for Privatization of North Harbour with *two competing terminals*.
- b) *Full Competition in Foreign Containerized Cargo Operations* – Much of the goods traded in the country is shipped in containers handled by two port operators (ICTSI and ATI) who lease terminals (MICT and South Harbor) from the Philippine Ports Authority (PPA). A third operator, Harbor Center (a private commercial port operator) was granted limited permit by PPA (domestic and foreign non-containerized). The Amcham, PCCI, DMAP and EDC sent letters to NEDA Director General Neri supporting full competition in international containerized traffic to improve port services and reduce port costs.

The Team actively participated in the discussions at the pre-National Competitiveness Summit workshops. As a result, all policy recommendations were carried by the Report on Infrastructure. Mr. Carlos, EDC Chairman (Transport and Logistics Committee) was tasked to present the Infrastructure recommendation at the National Competitiveness Summit last October 6, 2006.

- c) *RORO Advocacy* - The Ports Team participated actively in the drafting of the RORO law (using House Bill No. 335 (also known as the "RRTS Act") filed by Rep. Marcos as the base draft (HB 335 is based on EO 170).

The Ports Team used the venue to raise some RORO issues such as double charging of RORO Terminal Fees, collection of wharfage dues, and illegal collection of fees and taxes by some LGUs). As a result, DILG Secretary Ronaldo Puno issued a memorandum instructing all local mayors and provincial governors to stop collecting such illegal fees.

- d) *Infrastructure Monitoring Task Force* – Following the SONA commitments of the President, an Infrastructure Monitoring Task Force (IMTF) was created in August 2006.

EDC nominated E. Basilio (EMERGE Ports Team Leader) to represent EDC in the Task Force. The IMTF was tasked to monitor the infrastructure developments in the country and to fast track the implementation of pump-priming infrastructure projects. The Ports Team ensured that the ports development agenda (as well as EDC's identified key projects that will improve the competitiveness of the country) assumed priority status in the list of infrastructure projects.

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

RRTS is one of the flagship programs of the government. Executive Order (EO) 170 and subsequent issuances set the policy that the RRTS be integrated into the national highway system. The experience in Roxas, Oriental Mindoro—Caticlan, Aklan route, one of the links in the RRTS—provides an interesting perspective on the impact of the RRTS on the local economy. The Roxas-Caticlan route became part of the RRTS or the Strong Republic National Highway when RoRo vessels started operating in the route in June 2003. With the opening of the route, the municipality of Roxas in Oriental Mindoro was transformed from a sleepy village into a town with steadily growing commercial activities. The other end of the route- Caticlan, Aklan, also saw a rise in both domestic and foreign tourist activities, which contributed to the growth of the local economy.

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

Both EMERGE and DBP reviewed the draft report and provided the team with comments to improve it. In the next quarter, the team will submit a revised report (January 2007) and DBP will present it to its ManCom (February 2007). Thereafter, the DBP team (Mar Enecio, Mitzi Hernandez, Simple Apolinar and Raul Pasagui) together with EMERGE and Dr. Ruperto Alonzo will present the results of the review to various stakeholders, especially LGUs and private investors, in three regional forums (Bicol, Masbate and Cebu). The DBP decided to hold three regional investor/stakeholder forums in place of a national conference on RRTS, which was scheduled to take place in November 2006.

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

Joy Abrenica and Jhiedon Florentino worked on the draft rules for the implementation of the imposition of SMPOs and RIOs, will be submitted in January 2007. In the next quarter, the team will present them to the TWG for review and comments. NTC is expected to issue the official guidelines in the second semester of 2007.

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

The LMIP (Gigo Alampay and Joel Umali) team went to Upi, Maguindanao to assess the infrastructure and bandwidth capacity of the e-center for the proposed tele-medicine project with UP PGH. The team held talks with UP PGH on the possible joint implementation of the tele-medicine project.

The LMIP team drafted an evaluation report on LMIP based on data it gathered in Cebu and Bukidnon November 9-11. Earlier, EMERGE guidance in developing the methodology for evaluation, e.g., client exit survey, structure interviews of community e-center personnel. On 29 Nov 2006 USAID approved an extension of the LMI Program to June 2007.

The LMIP Team coordinated with various organizations (Development Academy of the Philippines, Telecommunication Office of DOTC) on their respective efforts to establish community e-centers. They also worked with CICT on the next phase of training public high school teachers on the use of i-Schools web board.

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

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

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

EMERGE reviewed and accepted the final report on the CICT Strategic Plan (Road Map) for the ICT sector. The LMIP team started work with Think Ideas on developing a website for it.

Task 3.3.2.1b Inventory of government assets for privatization.

EMERGE contracted Ricardo Rigo and Ronald Conquilla as consultants for the development of an inventory of government assets for privatization. Tyler Holt and EMERGE met with Ricardo and Ronald to discuss the scope of work, deliverables, project activities and time table.

The team met with Privatization Management Office, Land Bank of the Philippines, and PCGG and started with preparatory activities for the establishment of an inventory of government assets for privatization. They started with a review of data and various documents on government assets for privatization and presented the database fields/information to be developed to DOF Privatization Office for comment/approval.

EMERGE reviewed the draft Inception Report of the team and sent comments for its improvement. The team then sent a revised Inception Report for approval.

The team accomplished the following during this quarter:

- Revised, updated and submitted the draft Inception Report to EMERGE and DOF-PO
- Incorporated the comments of DOF-PO in the preliminary database fields
- Submitted the final version of the database fields/information to DOF-PO for final review and acceptance and finalized the database fields/information based on the comments of DOF-PO

- Started the data encoding using the final database fields/template
- Started design of prototype for the inventory system

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

Task 3.3.2.1c Privatization of certain government assets.

EMERGE joined Bob Wuerst and Tyler Holt in a meeting with DOF Secretary Gary Teves and Undersecretary John Sevilla to discuss the progress of EMERGE TA on the privatization of certain government assets. They expressed optimism over the privatization of certain government assets by the end of the year, e.g., Maynilad. EMERGE prepared a TOR for the extension of Job Ambrosio's and Ray Davis's contracts in response to a request from Usec Sevilla.

Maynilad-

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

Nonoc Mines-

EMERGE consultants (Ray Davis and Job Ambrosio) provided advice to the DOF Privatization Office and PMO on the legal and financial aspects of the privatization of Nonoc mine controlled by Philnico. The main issues are the tax treatment of the mines and the processing plant, tax incentives and revenue sharing.

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

Al-Amanah-

EMERGE consultants provided legal and financial advice on Al Amanah Bank.

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

Gold Mine-

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

Banking and Capital Markets

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

Setting the Capital Market Reform Agenda

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

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

Promoting Household Saving

The project completed a technical assessment of saving patterns and behavior of Philippine households (Task 4.1.1.1(a)). Requested by BSP Deputy Governor Nestor Espenilla, the assessment was identified looked for ways to improve its regulations and expand savings. The

objective was to identify the demographic variables affecting saving at the household level. Espenilla explored as well the possibility of institutionalizing a Consumer Finance Survey to provide the BSP a regular stream of information to improve its policies and regulations.

The EMERGE consultants identified the determinants of household saving in the Philippines and differentiated these by regions. They used family and income expenditure survey data from 1985 to 2003. The Monetary Board members accepted the study's findings and look forward to a follow-on activity to bring an expert from the U.S. Federal Reserve to help the BSP develop a Consumer Finance Survey (CFS). With the CFS design, the MB may then consider the EMERGE team's recommendation to institutionalize the CFS as a rider to the triennial Family Income and Expenditure Survey, administered on another day, to a panel of around 2,000 households.

Real Estate Appraisal Reforms

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

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

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

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

An action plan for real-estate appraisal reforms was crafted. The participants drafted reform action plans in four major areas of concerns, namely education, licensing and accreditation,

market transparency as well as regulation and association enhancement. One highlight of the symposium was that the country's two associations of real estate appraisers agreed to start their negotiations toward a merger into one association. In the next period, EMERGE expected to work with the RESCOP members to begin implementing the action plan. The symposium provided the blueprint for reforms wider dissemination and opportunity for improvement.

Fixed Income Exchange

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

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

Reining In Inflation

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

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

Specific Tasks

Task 4.1.1.1b Designing the Philippine Consumer Finance Survey

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

The Bangko Sentral ng Pilipinas (BSP) has requested the EMERGE project through EPRA to provide assistance to fund the travel of Dr. Kennickell, who works for the U.S. Federal Reserve and is an expert on CFS. Dr. Kennickell will help build the BSP's capability to undertake the Philippine Consumer Finance Survey. In particular, Dr. Kennickell will provide technical assistance in developing the design of the CSF, in conducting a pilot survey, and in training a core group of BSP staff on planning, executing and processing a CFS. Dr. Kennickell will take leave from his work to travel to Manila twice during the period from January to March 2007.

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

USAID instructed the EMERGE contractor to focus the work on the capital market reform agenda to specific policy reforms which the BSP officials and private sector organizations, who requested this TA, and the Capital Market Development Council support. The instruction came in light of reduced funding for the EMERGE contract. 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 requested EMERGE to undertake modules two and three of the capital market reform agenda. EMERGE and CMDC focused on the financial sector taxation reform (Task 4.1.1.3(b)), while the BSP officials have asked for assistance in adapting the country's Basel 2 obligations to Philippine conditions (Task 4.1.2.4(d)).

Task 4.1.1.3b Policy Review of Financial Sector Taxation

USAID approved this task on October 12, 2006. During the project inception meeting attended by the consultants, CMDC Chair Ms. Manabat, CMDC Executive Director Ms. Javier, and Dr. Lamberte and Ms. Robles of EMERGE, Dr. Felipe Medalla, a well known fiscal economist in the country and former NEDA Director General, a key member of the FinTax 2 team, discussed approaches to presenting the deliverables so that conclusions are palatable to the financial sector, the Department of Finance, and Congress as stakeholders of Phase II. Also discussed during the meeting were the schedule and deliverables contained in the EMERGE Purchase Order which the consultants agreed to follow.

At the first consultation workshop held at the BSP on 4 December 2006, Dr. Medalla presented the team's paper "Setting the Agenda for Reforming the Taxation of the Financial Sector.. Representing the various member-organizations of CMDC (FINEX, BAP, PSE, IHAP, PLIA, Pre-Need, PIRA, PDS) during the consultation workshop were, among others, CMDC Chairperson Ms. Manabat, Mr. Virata, Mr. Cuisia, Dr. Paderanga, Mr. Bernardo, and Mr. Salazar. Representatives from DOF and BIR were led by Director Habitan while Chairperson Barin attended for SEC.

Dr. Medalla argued that there are two equivalent ways of assessing the non-neutrality of financial sector taxes: (1) comparing the financial sector taxes being analyzed with consumption taxes; or (2) comparing them with income taxes that exclude from the tax base the additional income that arise from the savings. Using this equivalence, he concluded that country's financial

taxes are not neutral. These include the documentary stamp tax (DST), final withholding taxes (FWT) on interest income, the 5 percent tax on life insurance premium, and the VAT on non-life insurance policies if buyers of such policies are households since a big part of what is subject to VAT is not value added. Furthermore, Medalla claimed that current financial tax structure is inferior to what it replaced. It unduly emphasized the revenue raising, introducing distortions in the process. To move forward while at the same time not adversely affecting the fiscal position of the government, he suggested cross-sectoral compensatory scheme. His only example thus far is giving up or substantially reducing fiscal incentives to cushion the impact of restoring sectoral neutrality of financial taxes.

While the participants generally agreed with the preliminary analyses of Dr. Medalla, they pointed out that any tax reform must satisfy the constitution's requirements that taxes must be fair, equitable and uniform across affected sectors and that the tax reform should be at the minimum sector-wide to achieve tax neutrality within the financial sector. After the workshop, Dr. Medalla and his team approached various member-organizations of CMDC to secure data from them so that they could come up with estimates of benefits and costs of achieving tax neutrality.

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

The EMERGE team completed Tasks 4.1.2.4 (a through c) on developing a blueprint for real estate policy reforms in the Philippines. The completion was reported out in the project's last quarter report to USAID. In this quarter, EMERGE followed up on the implementation of the action plan. The discussion with selected members of the real estate profession gave rise to a possible follow on activity on crafting with various Philippine government agencies a geographic indicator code (GIC). The EMERGE team plans to meet with Deputy Governor Espenilla to discuss the proposed activity which the private sector needed in order to come up with a database of market transactions of real estate properties. The project also learned that the private sector is at its initial stages of improving its training program of licensure examinees for real estate appraisers.

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

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

In his letter addressed to EMERGE dated 12 October 2006, BSP Governor Amando Tetangco, Jr., requested TA to determine appropriate risk weights for BSP's standardized approach to the computation of market risk capital charges and to establish financial performance benchmarks by industry which can be used by banks in developing internal credit risk rating system consistent with the general norms under the Basel 2 framework. EMERGE prepared a TOR for this task,

which has two components: Component A – determination of the appropriate risk weights for BSP’s standardized approach to the computation of market risk capital charges; and Component B – establishment of financial performance standards across industries and between SMEs and non-SMEs that can be used by banks in their internal credit risk rating system. The results will be used as inputs in amending BSP Circular Nos. 360 and 439, which set the framework and guidelines for the adoption of Basel 2 in the Philippines. BSP Deputy Governor Espenilla is EMERGE’s primary counterpart for this task.

Espenilla has agreed to a provision in the draft TOR stating that BSP shall provide assistance to the Consultant by making available and, if necessary, securing from various sources such as PDex, Bloomberg, LBP, DBP, SBC, etc., data that are needed for the implementation of this task. The proposed consultant for this task is Dr. Noet Ravalo.

USAID reviewed the TOR and sent comments to EMERGE. Lamberte planned to consult with BSP before revising the TOR. If approved, the execution of this task will commence in January 2007.

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

Performance Milestone Achieved: *BSP adopted the recommendation that came out of this task in December 2006, which is to combine the three output gap models BSP developed and estimated, under the tutelage of the EMERGE consultant, with the rates of growth of broad money, nominal wages and oil prices for forecasting inflation.*

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

McNelis arrived on 7 December 2007 and began updating the data series for the models used last August. McNelis, with Ms. Bagsec and the CMFP group, gave a seminar on the re-estimated models and results to the new BSP Managing Director, Dr. Cyd Amador. He also presented two lectures to the Monetary Board, one at its unofficial meeting on Monday, in which he, along with Francis Dakila and Cris Bagsec, discussed their research on output gaps as predictors of inflation for the Philippines. McNelis then gave a more formal, brief presentation to the Board at its official meeting, and it accepted the measurements of output gap as indicators of inflation. It was agreed that the Board would not disclose its own estimates of the output gap but would make use of alternative measures of this variable. McNelis also gave a presentation to the staff of the Center of Monetary and Financial Policy on ways to assess the broader consequences of monetary policy, in particular banking sector liquidity needs, in the inflation targeting program.

McNelis subsequently submitted to BSP and EMERGE the final report “Output Gap Estimation for Forecasting Inflation: the Case of the Philippines.” BSP meanwhile has forwarded to EMERGE a proposed TOR for possible follow-on work.

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

Performance Milestone Achieved: *The Department of Finance (DOF) Municipal Development Fund Office (MDFO) Policy Governing Board formally accepted the draft Program Lending Manual prepared by the EMERGE Team, as well as the CDs and brochure explaining the program and providing*

application templates for policy-based loans to local government units for infrastructure and other priority projects.

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

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

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

Lamberte organized separate inception meetings for the three approved tasks, which were attended by NCC, CDA, EMERGE and the consultants selected for each; and he has monitored the implementation of all three, regularly meeting with counterparts and consultants to see if there are new issues that crop up in the process of implementation.

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

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

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

USAID approved this task on October 6, 2006. NCC, CDA and EMERGE created a Selection Committee for the purpose of selecting a consultant for this task. After assessing the technical merits of the proposals submitted by the CoReGroup, MedNet, COMSTRAT, PDRCI, and Tanggol Kalikasan, the Committee voted to assign this task to the Conflict Resolution Group (CoReGroup) Foundation, which is headed by Ms. Annabelle Abaya.

During the project inception meeting held at the CDA, Ms. Abaya presented the essential elements of the project based on the approved TOR, the role and proposed composition of the

technical working group (TWG) to be created by CDA that will closely work with CoReGroup, and the timeline for key activities. NCC and CDA agreed with the timeline of activities proposed by CoReGroup.

CoReGroup presented to the CDA Board of Administrators (BOA) their first report assessing current ADR system of other government agencies and major findings from their survey with CDA extension offices as respondents. These findings were used as inputs in the formulation of the draft framework for instituting an ADR system for the cooperative sector. In consultation with TWG, CoReGroup prepared a draft framework and presented it to the BOA for review. The BOA gave CoReGroup approval for the presentation of the draft framework in the regional consultation workshops. USAID approved the NCC request for EMERGE funding to cover the cost of participation in the regional consultation workshops of 1 NCC, 1 CDA Board of Administrator and 2 members of the TWG.

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

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

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

USAID approved this task on October 9, 2006. The consultants selected for the task are Dr. Ma. Piedad Geron and Dr. Gilberto Llanto. Both are highly qualified to do the work outlined in the TOR, especially since they already have some experience in working with NCC and CDA. A project inception meeting was held to ensure that all parties concerned would have common expectations about the process and end-results of the task and to discuss the consultants' implementation plan and timeline for its various activities. Present during the meeting were Mr. Almario of NCC; Chairperson Juarez, Ms. Caingles, Ms. Hwang and Ms. Jacinto of CDA; Dr. Geron, the lead consultant; and Mr. Lamberte of EMERGE.

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

travel-related expenses of 2 consultants, 1 NCC official and 1 CDA staff for their field visits to 6 CDA regional offices and 2 cooperatives in each region.

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

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

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

USAID approved this task on November 15, 2006. The consultants selected for this task are Mr. Fred Domo-ong, a retired BSP director of a department supervising rural banks, cooperatives and microfinance banks, and Mr. Ramon Reyes, a retired senior staff of the BSP. A project inception meeting was attended by Chairperson Juarez, Administrator Lapiña, Deputy Administrator Santillan and Ms. Caingles of CDA; Director Habitan of NCC/DOF; Lamberte of EMERGE; and the two consultants. The consultants presented their plan for implementing the project and the timeline for the various activities. It was agreed to move the preparation of the training module for trainers a month earlier so that CDA can have enough time to review the module and to find CDA staff suitable for this job. Ms. Juarez said that this will be the first time that CDA will constitute a pool of trainers to train staff on supervision and regulation of cooperatives. In developing the module for the Board of Administrators, Chairperson Juarez advised the team to structure a module that will make the Board of Administrators appreciate the new approaches to supervising and regulating cooperatives and understand various types of risks facing coops that have savings and credit functions. As regards the training of trainers component of the task, Ms. Juarez told the consultants to consider in the development of this training module CDA's plan to delegate the supervision function to federations and coop unions. Thus, CDA's trainers may be conducting training not only for its technical staff but also for those of federations and coop unions using the training modules developed for this task.

For the rest of the month, the team reviewed several reading materials and documents that could be used in developing the three training modules indicated in the TOR. The results of this review will be presented in January 2007.

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

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

This activity is about developing an ASEAN negotiation framework for the private sector for selected eleven industries. Cecille met with the CFO of DLSU and the PACT coordinator for the grant on November 9 to thresh out problems on the non-submission of reimbursement claims from PACT for four months since the start of the grant activity in August. The DLSU CFO committed to make arrangements with PACT/AKI to have someone attend to the submission of expense reports.

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

AIM Scientific Research Foundation is undertaking an assessment of the processes involved in motor vehicle registration, land public transport franchising and transport sector taxation. At AIM's request, the grant agreement was amended to reflect a no-cost extension through December 31, 2006.

Task 2.2.1.4a Biotech proposal on delayed ripening papaya.

This activity will support field testing of transgenic papaya with delayed ripening trait required by DA AO8 before it can go into commercialization. The Grant Agreement was finalized and signed by UPLBFI on Oct. 30.

Task 2.2.1.4b Biotech proposal on Accelerating the Development and Commercialization of Papaya Ringspot Virus-Resistant Papayas in the Philippines.

The proposed activities will complete the requirements of NCBP to allow succeeding trials under DA AO8. The Grant Agreement was finalized and signed on October 11. ISAAA submitted its 1st request for reimbursement.

Task 2.2.1.4c Biotech proposal on FSBP Eggplant.

This activity is about conducting field testing to develop shoot borer-resistant eggplants in the Philippines from a technology developed by Mahyco in India, who has agreed to extend the technology to the Philippines on selected eggplant varieties. EMERGE assistance will fund cost of moving the research to completion of NCBP requirements. The Grant Agreement was signed by UPLBFI on October 13.

Task 2.2.2.6b, Mining Manpower Assessment.

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

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

Fiscal Sustainability

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 cigarettes and tobacco. Following USAID approval of the activity, a meeting among EMERGE, the DLSU team, and the BIR Task Force for this activity was held on November 3, 2006, where EMERGE and BIR agreed with DLSU's technical approach, deliverables and timelines. The PO reflecting the consensus of the group was issued to DLSU.

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

This TA involves designing a more effective tax compliance and verification drive capability of the BIR. The PO to DLSU was amended to reflect a no-cost extension of the end date of the activity.

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 by tracking of lump-sum appropriations, specifically on infrastructure and allocations to the LGUs. The PO was issued to Asiagate on October 26. A Confidentiality Agreement was signed among DBM, the EMERGE Team Leader for Fiscal Sustainability and the vendor, Asiagate, to protect the confidentiality of some DBM information that the signors of the agreement may come across in the course of their work. The PO to Asiagate was amended to reflect a correction on the end date of the activity and to delete the ownership clause.

Task 1.2.1.1. DBM Selected Agency Restructuring Plans Improved

This task involves strategic review of the operations and organizations of the executive branch of the government in accordance with EO 366. During the quarter, the DAP team, DBM and EMERGE acted on the delay in implementing the terms of the TOR. The delay was caused by 1) non-submission by about 4 agencies of their rationalization plans, and 2) a pending decision by DBM on recommended sector and sub-sector experts that prevents DAP from hiring them. Reacting to an EMERGE-imposed hard deadline of June 30, the DBM imposed a hard deadline of November 30, 2006, for those agencies that are yet to submit their rationalization plans and will immediately make a decision on the selection of the remaining sector experts. At DAP's request, the 2nd PO was amended to reflect a realignment of funds and a no-cost extension through May 31, 2007.

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

Task 2.1.5.1 WTO e-learning

This TA to the DTI aims to develop the capacity of government and civil society to understand and participate in international trade discussions and negotiations. IATP submitted its 3rd and 4th tranche deliverables consisting of the documentation of the integrating workshops.

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. BPS and EMERGE agreed to use ECA's vendor, Systema Computer Solutions, Inc, as the same vendor for the development of the BPS portal since two donors are involved in funding the development of the same portal with segregation on the functionalities identified to each donor. Inputs were provided in the finalization of the TOR for Phase 2 to comply with contract rules. Cost details of Phase 2 activities were discussed and were agreed upon with BPS such as the TBT network meetings and workshops, support staff, content development and migration and the portal launch in May 2007. The EMERGE consultant's PO was amended to reflect additional funding for the additional scope involving assistance to resolve the single supplier issue for EMERGE and ECA.

Task 2.1.2.3 Compliance to Kyoto Convention.

EMERGE has agreed to share with PACT in the costs of implementing activities to prepare the Philippines to be compliant with the Kyoto Convention. A purchase order amendment was executed to reflect a no-cost extension on October 11.

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 CICT involves packaging the Roadmap into a user-friendly print document with a corresponding CD version, and designing the CICT Roadmap website. The 2nd PO was issued to Think Ideas, Inc. on October 27 covering the development of the final print master of the roadmap. A 3rd PO was issued to Think Ideas for printing the CICT roadmap on November 7.

On Banking and Capital Markets

Task 4.1.1.3b Financial Taxation System Analysis and Design II

Phase II activities focus on the economic and financial rationale behind the tax structure identified in Phase I. EMERGE received USAID approval of the activity on November 6. The PO to Zambrano and Gruba Law Office was finalized and sent for Gruba's acceptance on November 24.

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

This activity is about development of alternative dispute resolution (ADR) mechanisms at the primary, secondary and tertiary cooperative levels to decongest dispute resolutions at the national level. The CoReGroup was selected from among the five (5) bidders by a selection committee. The PO was issued to the CoReGroup on November 2, 2006.

Conferences, Seminars and Workshops

Task 4.1.1.1b US Federal Reserve System TA and workshop

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

Annual Meeting of the Philippine Economic Society (PES).

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

TASK 4 - SO2 Monitoring, Assessment, Reporting

During the third quarter of 2006, Winnie Vicente began documenting the impact of EMERGE accomplishments that already have a measurable impact on the economy. The others which either have long gestation periods or are difficult to measure must wait for a more favorable time. The areas where quantitative indicators are already obtainable include:

1. ***Voice-over Internet Protocol.*** Overseas calls to 89 destinations at 3 pesos (approximately 6 cents) per minute through PLDT's Budget Card, though this has reportedly gone down to 5 cents per minute. The usual rate for an overseas call is 40 cents per minute. Since the market is very new, the competition has not yet settled to an established rate and it still isn't practical to have a single price index to summarize rates being offered by all players. In addition, there is a confirmed set of 17 non-telecommunications companies that have been issued licenses by the NTC to offer VOIP services, and there is another set of 8 firms that have reportedly been issued VOIP licenses but whose status has yet to be confirmed with the NTC.

2. ***Inter-Island Shipping.*** The drafting of Executive Order 170-B, issued on 19 September 2005 by the President, benefitted from advice of the EMERGE team. The EO discloses that there are more than 350 private non-commercial ports that can potentially be converted into private commercial ports, extend the Road-RORO Terminal System (RRTS) network, and thereby provide better access to island provinces and better integration among the regions.

Winnie Vicente gathered inventories of ports from the National Statistical Coordination Board (NSCB) and the Philippine Ports Authority (PPA) and found out that within the PPA network, none of the private non-commercial ports have yet made the transition to commercial status. One reason may be gleaned from the Alonzo study done within the EMERGE project—which shows a specific case where further investment may not be recouped within an acceptable timeframe.

The broad performance indicators of USAID's Strategic Objective 2 (SO2): Performance of selected government institutions improved: Effective Rates of Protection (EPRs), Tax Effort, Corruption Perceptions Index, and Unemployment Rates of 15-24 Year Olds, by sex, are continually being updated. There is a continuous search for new indicators for possible inclusion in monitoring the areas of the economy under SO2. We are monitoring fiscal performance and collections by type at the BIR and are trying to obtain indicators on the telecom service

penetration in less developed areas in the country. The latter, however, has not materialized as we wait for working arrangements to firm up at the National Telecommunications Commission (NTC) under the new leadership.

At the end of 2006, Winnie Vicente submitted two articles for publication: an update of the September 18 Unemployment article that reflects the latest data obtained from the National Statistics Office to the University of Asia and the Pacific; and a brief economic outlook for 2007 to the AmCham Journal for publication in its January 2007 issue. Both articles were written for internal purposes as part of her regular monitoring efforts, and publication is just incidental.

TASK 5 - Public Information and Consultations

During the reporting period the Public Information Manager accomplished the following key tasks, among others:

He assisted the LMIP team in the production of the CICT strategic roadmap by providing guidance on the newly released branding requirements of USAID. He also assisted the group in discussing with possible printing houses the technical specifications for the publications.

He joined the LMIP team on a three-day trip to Cebu, Cagayan de Oro and Bukidnon to assist the team in interviewing beneficiaries of the EMERGE TA in setting up community e-centers. The information gathered was used in the evaluation report prepared for the LMI project as per request of USAID.

Ronald finished drafting of the success story on the achievements of the community e-center in Kiangan Ifugao, which has already generated substantial income as a result of its operations.

Ronald assisted project partners and project team leaders in their media relations activities. PGTEP's Atty. Gil delos Reyes sought Ronald's assistance in media relations during the graduation of the participants in the eWTO training program of the Department of Trade and Industry managed by PGTEP/Earth Council. The media covered the event since WTO Director General Pascal Lamy addressed the participants.

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

B. Administrative Information

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

Section II - PROJECT OFFICER'S COMMENTS (optional)

Project Officer/Office Symbol _____ **DATE:** _____

Section III - CONTRACT OFFICER'S COMMENTS (optional)

Contract Officer/Office Symbol _____ **DATE:** _____