



QUARTERLY PERFORMANCE REPORT

Contractor: CARANA Corp./Nathan Associates Inc.

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

Reporting Period: July 1 to September 30, 2005

Section I - CONTRACTOR'S REPORT

A. Narrative:

1) Contract Delivery Order Final Objective: The Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity is to contribute towards USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-liberalization partners and stakeholders. It has two broad objectives. It will contribute to:

- continuing policy liberalization in the Philippines, and
- increasing the degree of competition in the Philippine economy.

The contractor is responsible for the following major task areas:

- 1) policy analysis and technical assistance;
- 2) administration of grants to NGOs and nongovernmental research institutions;
- 3) administration of the Special Activities Fund (SAF);
- 4) SO2 monitoring, assessment, reporting; and
- 5) public information and consultations.

The 3-year Contract Delivery Order authorized a total level-of-effort of 7,504 workdays, which may be adjusted by written approval of the CTO subject to the delivery order ceiling price of US\$11,333,829. The Delivery Order was signed on August 23, 2004, and expires on August 22, 2007. The remaining balance of the delivery order, as of September 30, 2005, was \$8,877,618.

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 remaining start-up and other administrative tasks.

Start-up and Other Administrative Tasks

As of the end of June the project was still awaiting the release of the business permit from the Makati mayor's office.

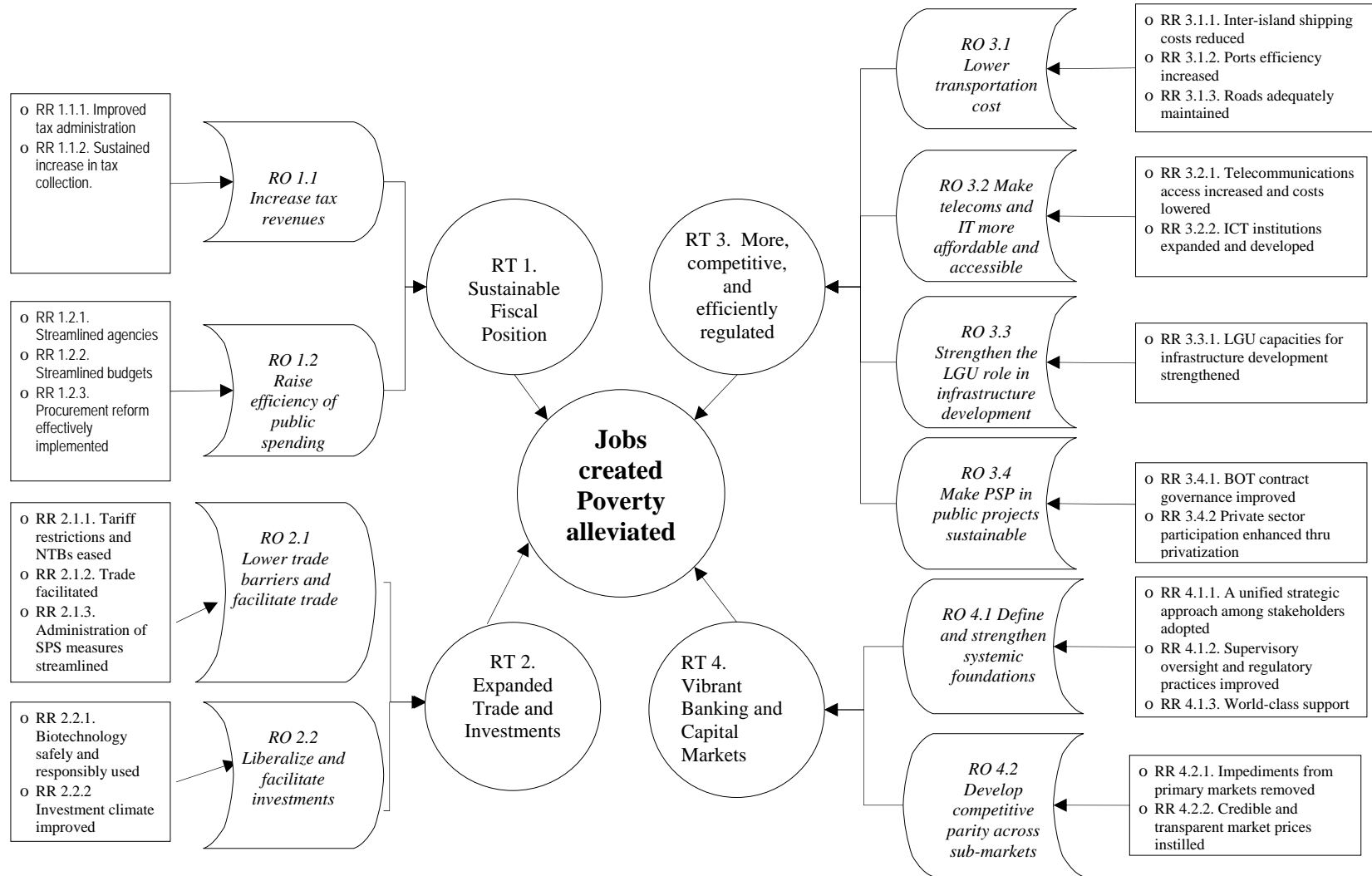
The MIS software Interlink I-write was being revised to adjust its flow on the EMERGE e-mail system environment. Data build-up was to be undertaken afterwards. The official project website was expected to be activated during this quarter.

TASK 1 - Policy Analysis and Technical Assistance (TA)

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

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

Figure 1. EMERGE Results Framework 2004-2007



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

A purchase order (PO) was awarded to E-Konek, Phil., on June 1. Work on this activity is expected to be completed in November 2005. By the end of this quarter, the firm was expected to have accomplished over half of the activities in its work plan.

Task 1.1.1.2 Revenue effects and structuring of tax administration reform initiatives

The EMERGE team hired Mr. Francis Vicente to help the Commissioner of Internal Revenue prioritize and provide structure to the various reform initiatives for improving tax administration as found in the *BIR Blueprint for Development Towards 2010*. He is also to estimate the revenue effects of proposed reforms. The consultant's engagement started on March 1, 2005, and is expected to end on December 31, 2005. He developed two proposals for possible technical assistance (TA) at the Bureau of Internal Revenue (BIR), which were to be developed further during this quarter:

- 1) the enhancement of the eSales system and the Mobile Revenue Officer System (MROS) to better enable them to detect taxpayer compliance, and
- 2) a review of the existing system whereby accredited agent banks (AABs) are authorized to receive tax payments on behalf of the BIR in exchange for being allowed to hold the payments for a fixed period of time (i.e., float) prior to remitting the tax payments to the Bureau of Treasury (BTr) to assess the feasibility of outsourcing "collection agent-banks" business to a limited number of banks in a more arms-length manner.

He also developed a methodology for estimating tax leakages the capital gains tax and excise and value-added taxes. By the end of this quarter, the results of these efforts, including a similar exercise on Value Added Tax (VAT) and Excise Taxes, was to be available in a report.

Task 1.1.1.3 Improved administration systems of selected tax measures

This task is designed to help BIR improve the collection of (a) the document stamp tax (DST) on mandatory third party liability insurance, which vehicle owners must purchase each year when they register their vehicles with the Land Transportation Office (LTO); and (b) common carrier tax that is collected from public land transportation companies. EMERGE planned to provide a grant to the AIM-Hills Governance Center for this task but did not yet have grant authority from USAID. EMERGE expected to resume work in this area during this reporting period, anticipating the approval of grant authority.

Task 1.1.1.4 Tax rulings aligned to improve tax collection

Department of Finance (DOF) Undersecretary Emmanuel P. Bonoan requested EMERGE TA to help his office draft the implementing rules and regulations for the PAA and to review previous BIR tax rulings for consistency with the law. EMERGE forwarded the TOR to USAID for approval on June 29, 2005, and expected to implement this task during this reporting period.

Reform Result 1.1.2. Sustained increase in tax collection

Task 1.1.2.1 Individual Performance Management System at the BIR Installed

The BIR Performance Management System (PMS) team commenced work in April 2005. At the end of June 2005 its work in the Large Taxpayer Service (LTS) was on track and was expected to be completed by the end of October 2005, as planned.

In a related activity Department of Finance (DOF) Undersecretary Noel P. Bonoan asked EMERGE to help him and an inter-agency committee draft the implementing rules and regulations (IRR) for the Performance Attrition Act. By the end of June, the committee had completed its work with the assistance of Atty. Venir Cuyco. Usec. Bonoan was expected to send the completed draft IRR to the Congressional Oversight Committee for approval during this quarter and possibly ask for additional EMERGE assistance to help respond to questions about it.

Reform Objective 1.2 Raise the efficiency of public spending

Reform Result 1.2.1. Streamlined agencies

Task 1.2.1.1 Selected Agencies' Re-structuring Plans Improved

This task calls for the hiring of experts who will develop sector/sub-sector profiles and review the department restructuring plans that various government agencies will submit to the Department of Budget and Management (DBM) pursuant to the IRR for Executive Order (EO) 366 (on government restructuring), which was officially issued and published on May 20, 2005. DBM Undersecretary Pascua requested EMERGE TA to include the services of 22 sector/sub-sector experts (one for each of the major departments/agencies in the restructuring program), 2 financial experts and 2 organizational experts to help put together the parameters for the review of the restructuring plans of the monitored government owned and controlled corporations (GOCCs). Discussions began with the Development Academy of the Philippines (DAP), which was selected to help the DBM implement this TA, before the end of June, and work on this task was expected to commence in the third quarter of 2005.

Reform Result 1.2.2. Streamlined budgets

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

The DBM would like EMERGE to conduct some training programs to help improve the appreciation, understanding and capability of Congressional staff (particularly those of the Congressional Planning and Budget Office, the Senate Economic Planning Office, the Appropriations Committee secretariat, and the Economic Affairs Committee) in the implementation of the OPIF. However, work on this task was held back pending further discussions with DBM Undersecretary Laura Pascua.

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

Undersecretary Pascua also requested EMERGE to provide U.S. consultants to help the DBM learn about the Performance Assessment and Review Tool (PART) used by the US Government Office of Management and Budget (OMB) to assess the performance of Departments. The TOR for this TA was drafted in April. However, the engagement of the consultants has been postponed to early 2006

at the request of Undersecretary Laura Pascua, because the DBM staff is presently busy with 2006 budget preparation and the government restructuring program.

Task 1.2.2.3 Working Model to Predict Cash Inflows Installed at DBM

The EMERGE team hired Mr. Jem Armovit to 1) work on a model to predict cash inflows and 2) help draft the Fiscal Responsibility Bill (FRB) for DBM. The former is needed to allow DBM to issue notices of cash allotments quarterly instead of monthly. Mr. Armovit completed his work on the FRB last quarter. His engagement started on March 16, 2005, and was to end on September 15, 2005.

Reform Result 1.2.3. Procurement reform implemented

Task 1.2.3.1 Customized Agency Manuals and Generic Procurement Manuals Aligned

The World Bank assisted DBM draft procurement manuals tailored for selected agencies. DBM Undersecretary Pascua asked EMERGE to help align the customized manuals with the standard procurement manual and the Government Procurement Reform Law. The TOR for this task was approved by the USAID in June 2005 and the consultant, Joel Syquia, was expected to start work in July.

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

Reform Objective 2.1 Lower trade barriers and facilitate trade

Reform Result 2.1.2. Trade facilitated

Task 2.1.2.1 Customs Audit Performance and Capability Assessment

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

Task 2.1.2.2 Customs Risk Management System Improved

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

Reform Result 2.1.3. Administration of SPS measures streamlined

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

TA was requested by DA Undersecretary Serrano to streamline the administration of sanitary and phyto-sanitary (SPS) measures at the DA. After a lengthy review, a revised TOR and budget were

submitted to USAID for approval on June 30. Cesar Virata and Associates, Inc., (CVAI) was proposed as the vendor for the first PO of this task, and the consultant team was expected to commence work in July 2005. The EMERGE SPS project is complementary to that of the World Bank and similar to that of the EU; and hence some coordination of work among the parties involved will be necessary.

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 in the first quarter of 2005. The draft Bureau of Food and Drugs (BFAD) Guidelines on the labeling of processed foods containing GMOs is at the Office of the Secretary of Health, who will approve the guidelines. The recommendations on field testing protocols are being considered for adoption by the Bureau of Plant Industry (BPI). Decisions on the recommendations were expected this quarter.

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

A PO for the International Support for the Acquisition of Agri-biotechnology Association (ISAAA) to implement this task for the DA and the Bureau of Food and Drugs (BFAD) to strengthen the government's regulatory framework on biotechnology was approved by the USAID on May 17. The TA is expected to be completed in May 2006. As one of its first activities, the team helped the DA prepare for a survey on the acceptability of different IRM modalities, which was to be conducted on 18-27 July 2005 in 7 regions across the country.

Task 2.2.1.3 The Filipinos properly informed and educated about modern biotechnology

A PO for the Biotechnology of the Philippines (BCP) to provide TA to the DA and the Bureau of Food and Drugs (BFAD) to strengthen the government's mechanism for effective and efficient regulation of biotechnology was approved by USAID on May 31. The TA is composed of institutional capacity building and an IEC campaign. It is expected to be completed in May 2006. A major accomplishment of this TA was the signing on June 16 by President Arroyo of Presidential Proclamation No. 861, declaring the first week of July 2005 as "National Biotech Week." The consultant team was involved in the preparatory activities for the celebration of National Biotech Week, July 1-7.

Reform Result 2.2.2 Investment climate improved

Task 2.2.2.1 Improving the Investment Climate

On December 2, 2004, it was agreed with the Board of Investments (BOI) that a technical assessment of the investment climate should apply supply chain and transaction cost analyses, be results driven, and be conducted in real-time, as information may be discovered in tranches. The coconut industry was selected to be the first to undergo the diagnostic study, which was to be initiated in the first quarter of 2005. A draft TOR for the conduct of a diagnostic study on coconut-based products was prepared during that quarter in consultation with the BOI and circulated for review and comment. It was submitted to USAID for approval on May 6. The objective of the TA was to improve the investment climate in coconut-based industries producing non-traditional

coconut products, by using value chain analysis to identify bottlenecks, policies, infrastructure deficiencies and other constraints to the competitive, profitable production of such products. This is intended to support BOI's effort to re-engineer itself from an agency promoting investments with fiscal incentives to one focused on improving the investment climate and reducing transaction costs of investors. EMERGE briefed the USAID on the proposed TA on June 24 and at the end of June was waiting for approval.

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

Reform Result 2.2.3 Investment facilitated

Task 2.2.3.1 Strategic Development Initiatives

There were two TA activities under this task. The first one, on exploring alternative mechanisms for financing infrastructure investments, management systems of business that are adapted to Filipino society and the development of innovative anti-poverty networks, was completed in April 2005. The second activity was on-going at the end of June and was exploring the feasibility of establishing an effective mechanism to use instruments such as tax declarations to establish ownership rights to real properties, in the absence of formal land titling, and to see if it would be feasible to use these as collateral to secure bank lending productive purposes in the rural areas. Concerns from bankers, such as the President of the Land Bank of the Philippines, were raised against the proposal. The consultant then turned to exploring other mechanisms, including the acceleration of land titling.

Reform Objective 3.1 Lower transportation cost

Reform Result 3.1.1 Inter-island shipping cost reduced

Task 3.1.1.1 The nautical highway developed and access to it institutionalized

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

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

Mr. Henry Basilio and Ms. Jennifer Llarena were hired in June 2005 to undertake these tasks.

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 3rd quarter of 2005, since DBP priority was on the promotion of the RRTS (Task 3.1.1.3).

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

A SOW 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. It was under review by DBP and EMERGE, but was put on hold pending the return of Mar Enecio, who was in the U.S. the whole month of June.

Reform Result 3.1.3 Roads adequately maintained

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

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

Reform Objective 3.2 Make telecommunications and IT more affordable and accessible

Reform Result 3.2.1 Telecommunications access increased and costs lowered

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

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

Task 3.2.1.2 Competition policy for ICT sector formulated and implemented

A team (composed of two expats and three local consultants) was organized in June 2005 by EMERGE to assist NTC in the formulation of a competition policy framework for the information and communications technology (ICT) sector. The team was to draft a “Consultative Document on Competition Policy for the ICT Sector,” and to help the NTC prepare for its “Conference the Future of Competition in the Information and Communications Technology Sector;” tentatively scheduled for October or November 2005.

Reform Result 3.2.2. ICT institutions expanded and developed

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

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

Reform Objective 3.3 Strengthen the LGU Role in Infrastructure Development

Reform Result 3.3.1 LGU capacities for infrastructure development strengthened

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

DOF Undersecretary Roberto Tan sent EMERGE a request for TA to develop guidelines for program lending to local government units (LGUs). EMERGE held initial discussions with the

executive director of the Municipal Development Fund Office. A TOR for this activity was to be prepared and submitted for USAID approval in this next quarter.

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

Reform Result 3.4.1 BOT Contract Governance Improved

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

The Board of Investments (BOI) requested TA to help draft amendments to the Build-Operate-Transfer (BOT) Law, after a public hearing on the IRR amendments called attention to the need to amend the law itself to take care of issues that could not be addressed by mere amendment of the IRR. The proposed TA on BOT Law amendments was to be pursued after the amended IRR was finalized. EMERGE developed a draft TOR, but the BOT Center advised EMERGE to wait until the amended IRR has been signed and disseminated, and this was delayed due to changes in leadership. EPRA planned to help the BOI conduct workshops to disseminate the amended IRR, and PACT has agreed to help BOI consult with the business sector about proposed amendments to the BOT law itself.

Reform Result 3.4.2 Private sector participation enhanced thru privatization

Task 3.4.2.1 Privatization of state-owned enterprises

NEDA Director General (DG)/Socioeconomic Planning Secretary Neri requested TA on how to proceed with several potential privatization activities; and EMERGE included TA to assist with the privatization of certain government assets in its 2005 Annual Work Plan, responding also to a request by the DOF Privatization Office. EMERGE drafted and finalized a TOR to help structure a privatization program for the government, which was approved by USAID on June 20, 2005. Two expat privatization experts, Thom Flohr and Bernard Carmody, arrived on June 27 to begin work on this task.

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

Reform Result 4.1.1 A unified strategic approach among stakeholders adopted

Task 4.1.1.1 Technical Assessment of saving patterns and behavior

This assessment was identified as a priority task by the Capital Market Development Council (CMDC). The Bangko Sentral ng Pilipinas (BSP) requested TA on consumer saving/finance issues, which may be incorporated into this task. A draft SOW for this task was sent to the Capital Market Development Council for their comments and further inputs.

Task 4.1.1.2 Defining the Philippine Capital Market Reform Agenda

BSP Governor Rafael Buenaventura requested TA for this task and a separate letter was sent by the Executive Director of the Bankers Association of the Philippines (BAP) concurring with the draft SOW. It was approved at the end of May and the consultant began work on June 1. The BAP, one of the main counterparts for this effort, suggested that the workshop initially scheduled for end-June be held in August instead, to allow new members of the Monetary Board to settle in first.

Task 4.1.1.3 Policy Review of Financial Sector Taxation

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

Reform Result 4.1.2 Supervisory oversight and regulatory practices improved

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

This task was planned for the third quarter of 2005. Director Jose Aquino of the Securities and Exchange Commission (SEC) agreed to draft the SOW for this task.

Task 4.1.2.2 Financial Risk Management Framework for PDIC

This task is planned for the 2nd half of 2005. Discussions have been held with the Philippine Deposit Insurance Corporation (PDIC) on the preparation of a SOW and the sequencing of assistance. The initial SOW drafted by the Philippine Deposit Insurance Corporation (PDIC) has been discussed thoroughly and an agreement was reached to prepare a further draft to streamline the technical request, focusing on the need for PDIC to develop a risk management framework consistent with international best practices and to provide for necessary capacity building.

Task 4.1.2.3 Upgraded Framework for PDIC Inspection

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

Task 4.1.2.4 Valuation and Risk Parameter Estimation for BSP

Nathan Associates searched for a qualified consultant and identified Mark Bates for this task. BSP Deputy Gov. Espenilla indicated his concurrence, and a SOW was to be drafted in July for Mr. Bates to make an initial short trip towards the end of August to review the situation and prepare an inception report from which a full SOW could be drafted.

Task 4.1.2.5 TA to BSP on Inflation Targeting and Monetary Policy

Fr. Paul McNelis was identified as a qualified consultant with the concurrence of BSP Deputy Gov. Guinigundo. He was to come to Manila on a short 1-week trip from July 23 to 30 to discuss with the BSP the status and further needs of the BSP general equilibrium model to provide output gap analysis for inflation targeting of monetary policy.

Reform Result 4.1.3 World-class support infrastructure developed

No tasks planned for 2005

Reform Objective 4.2 Develop competitive parity across sub-markets

Reform Result 4.2.1. Impediments from the primary markets removed

Task 4.2.1.1 Technical Simulations & Assistance to Support the PERA Initiative

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

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

Reform Result 4.2.2. Credible and transparent market prices instilled

Task 4.2.2.1 Assistance to the Philippine Dealing and Exchange Corporation

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

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

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 along with a request for a waiver to award grants under the contract. It was later discovered that the SEGIR/Privatization IQC, under which the EMERGE delivery order was issued, does not authorize its contractors to award grants. As a result, USAID/W will have to amend the IQC before the EMERGE waiver can be granted.

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

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

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

SAF Activity: Mining

The EMERGE Mining Team has been assisting NEDA Director-General Neri explore alternative options to speed up the privatization of a few mines and identify impediments to mining investments, including conflicting provisions of local and national government regulations that are relevant to mining, social concerns about mining activities such as their impact on local communities and indigenous people, and developments of small mining activities, particularly in Diwalwal Gold mines. The team is expected to complete its work during this next quarter.

The EMERGE core team has also been working, in collaboration with DeLa Salle University's PACT team, to structure assistance activities aimed at improving the social acceptability of mining. The TA is to be implemented by PACT with a grant from EMERGE. The SOW was to be drafted and presented to USAID for approval in this quarter.

SAF Activity: Land Reclamation

Atty. Dacayo has been gathering and reporting on the status of the Catabalogan Reclamation Project, the Laguna de Bay Polder Island Development Project, and the Cebu Reclamation Project, highlighting investment opportunities as well as impediments that investors and the Philippine Government may have to consider. He also completed a more in-depth review of the policies, laws, rules and regulations governing reclamation to determine if any legal impediments or needful improvements still exist and, if so, to suggest possible solutions or changes. His consultancy was to be completed this reporting period.

SAF Activity: Re-forestation/Agroforestry

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

TASK 4 - SO2 Monitoring, Assessment, Reporting

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

Draft and establish a TIERG performance monitoring plan (PMP): The SO2 monitoring manager discussed proposed changes on the EMERGE results framework with the EMERGE team leaders and recognized the need to draft and distribute an expanded list of performance indicators. Consultation meetings on this expanded list of indicators were underway at the end of June.

Create a database of SO2 indicators: The SO2 M&E manager was preparing a database template that would house the EPRA and PACT project-level indicators when they become available, in order to create a consolidated database of SO and project level indicators.

Review and present amendments to the SO2 SOW templates: The SO2 monitoring manager reviewed EMERGE SOW templates to study the possibility of incorporating therein performance indicators, performance targets and causality statements and he distributed proposed amendments for feedback.

TASK 5 - Public Information and Consultations

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

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

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

3) (c) Subcontracting Activities During the Quarter: CARANA Corp., for EMERGE, subcontracted the Institute for Agriculture and Trade Policy (IATP) to implement the WTO e-learning activity. IATP is a US, non-profit organization that supports efforts on trade and agriculture to forge stronger and fairer multilateral trade rules such as ensuring fair commodity prices at the national and international levels. IATP will provide training using on-line courses to 400 participants, with the bulk coming mainly from the DTI, and the remaining slots to be allocated among the executive, legislative and judicial branches of the government, and about 50 slots reserved for participants from the civil society group. IATP will tap technical experts from its partner, the Earth Council in Geneva, the organization that owns the World Trade e-learning Center. The on-line course will be supplemented by a face-to-face workshop after the completion of the courses to be facilitated by the technical experts.

4) Performance during the Quarter:

Administrative Tasks

The project successfully completed the first and second training course on Public Procurement Reform for the Office of Government Corporate Counsel (OGCC) in July and August. Technical and logistical support was provided by EMERGE. Arrangements for the third and last course, scheduled for October, were being coordinated with the OGCC and the consultants.

The project website with address, <www.EMERGE.ph>, is now fully activated and online. The contents of the website were edited to incorporate the comments of the Chief of Party and other project staff.

EMERGE was finally issued a city permit to operate by the Makati Mayor's Office on July 20, 2005.

TASK 1 - Policy Analysis and Technical Assistance

Task 1.1.1.1 Improved One Time Tax Transactions (ONETTT) System

In the preceding quarter, EMERGE engaged the services of E-Konek in order to develop 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. In this quarter, the EMERGE ONETTT team worked on developing the prototype, receiving guidance on issues from the Bureau of Internal Revenue (BIR) Information Systems and Operations Groups, such as whether or not the BIR wants to revise the Certificate Authorizing Registration (CAR). The ONETTT system streamlines and automates the application of taxpayers for CAR, which is needed in registering the transfer of land titles. At the same time, it generates information for BIR to be more able to stop leakages of the capital gains tax on the transfer of real properties. During the anniversary celebration of the Bureau on August 1, 2005, BIR asked EMERGE to showcase a work-in-progress prototype of the system. In the next quarter, EMERGE plans to complete the prototype of ONETTT.

Task 1.1.1.2 Revenue effects and structuring of tax administration reform initiatives

Continuing work on producing information for the BIR on the importance of alternative tax administration reform proposals envisioned in the BIR Blueprint for reforms developed the following information:

- The amount of uncollected income taxes each year is P85.4 billion. This amount represents an average of such leakages between 1998 and 2002, as estimated by the Department of finance and the International Monetary Fund.
- Sixty three percent of the amount comes from uncollected corporate income taxes; 31.3 % from business/professional income; while the remaining 5.4 % is from compensation income.
- The VAT leakage amounts to Php 41.6 billion.
- Philippine tax leakage estimates, on direct taxes-corporate and individual income tax, can be traced as far back as the 1990s with the studies of the National Tax Research Center (NTRC) and the Philippine Institute of Development Studies (PIDS).

- The National Statistical Coordinating Board (NSCB) has developed methodologies for establishing retail price indices and disaggregating real estate gross value added. This information has potential in determining tax leakages on capital gains tax such as what the ONETTT system seeks to curb.

The consultant hired by EMERGE to undertake this activity provides inputs towards developing priority TA activities to implement tax administration reforms, as requested by former BIR Commissioner Guillermo Parayno (who resigned in July 2005). (See Task 1.1.1.3) EMERGE expects to complete the activity in the next quarter.

Task 1.1.1.3 Improved administration systems of selected tax measures

In this quarter, the EMERGE fiscal team has worked on the following TA requests which may be acted upon, with USAID approval, in the next quarter:

1. The AIM-Hills Governance Center submitted a proposal for a grant from EMERGE for the Center to undertake work with the BIR, Land Transportation Office (LTO), Land Transportation and Regulatory Franchise Board (LTFRB) and the Office of the Insurance Commission. The work aims to improve the collection of the documentary stamp tax on third party insurance contracts, which the Land Transportation Office requires each year, and the common carrier tax on gross receipts of public land transportation companies. Working towards this objective entails the streamlining of the annual registration procedures at the LTO for private vehicles. The proposed work not only promises to benefit LTO clients by lowering regulatory compliance costs but also by reducing the incidence of fraudulent collection by unregistered insurance companies of premiums for mandatory third party liability insurance. Estimates by the Insurance Commission is that half of the three billion pesos worth of insurance premiums paid by motorists each year is collected by these bogus insurance companies and because of that BIR loses about half a billion pesos of documentary stamp taxes. The EMERGE fiscal team commented on the proposal and sent it back to the Center. EMERGE is waiting for USAID authority to administer grants.
2. The EMERGE fiscal team discussed with BIR Director of the Information Systems Group (ISG) Vicky de Leon, DLSU Dean of Computer Studies Dr. Caslon Chua, and Chair of the College of Industrial Engineering Dennis Beng Hui a proposed TA activity to improve the Tax Compliance Verification Drive (TCVD) process and Mobile Revenue Officer System (MROS) of the BIR. OIC Commissioner Buñag asked EMERGE to assist the Bureau for this purpose. The TCVD is part of the revenue generating activities of BIR. Although its collection from such activities is relatively small, its main benefit is to expand the population of tax filers, which increases future collections of the BIR. The enhancement will cover improvement in the procedures BIR uses in its tax mapping work and updating the Bureau's revenue memorandum order on it. At the same time, because BIR mobile revenue officers who do tax mapping are equipped with the capability to validate information provided by taxpayers from BIR computers, part of the proposed work is to improve the MROS. The next step is for EMERGE to submit this TA activity for USAID approval after it receives the written request of Commissioner Buñag.

3. Head Revenue Executive Assistant (HREA) Elvie Vera of the Large Taxpayer Service (LTS), who is in charge of collecting excise taxes, asked EMERGE for assistance in improving the collection of cigarette taxes. According to Vera, the present setup of assigning LTS staff to undertake off-site inspection to monitor withdrawals at cigarette factories causes leakage. The law requires the use of stamps or bar codes in order to demonstrate that the taxpayer has paid the excise tax. Vera needs EMERGE to help identify which of the two makes more sense for the BIR and the taxpayers. She also seeks assistance to help the LTS excise division put the numerous regulations pertaining to the collection of cigarette excise taxes into one, updated document.
4. EMERGE drafted a Scope of Work (SOW) to study the feasibility of paying a service fee to a few Accredited Agent Banks (AABs) for the receipt of tax payments. It is now under review by Asst. Commissioner for Collections, Virginia Trinidad, who requested it.

Task 1.1.1.4 Tax rulings aligned to improve tax collection

This activity, which DOF Undersecretary Emmanuel P. Bonoan requested from EMERGE, has not been implemented yet. Bonoan put this activity on hold following the resignations in July 2005 of former DOF Secretary Cesar Purisima and BIR Commissioner Guillermo Parayno. USAID approved this TA in July 2005. Usec Bonoan told Ramon that out of the 4,000 tax rulings that were reviewed with USAID TA under a previous project, about thirty-three are slated to be rescinded, and the BIR is asked to comment on a few hundred more that may also be rescinded. In the next quarter, EMERGE will discuss with DOF on what it has decided to do on this activity.

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

This activity is nearing completion. By end of this quarter, the Large Taxpayer Service (LTS) staff had gone through performance target setting at the office and individual level and is using the Performance Management Information System (PMIS) developed in this activity for LTS to develop performance contracts, monitor and evaluate performance, and to calculate rewards for good performance. For the first half of 2005, the performance of the various offices of the LTS had been evaluated against performance targets that the LTS developed with USAID/TAF assistance in 2004. In the second half of the year, the LTS is fully using the PMS developed by EMERGE.

Anticipating completion by middle of October, the team is finalizing the PMIS for presentation, coming to an agreement on the instruments for measurement at the service level for institutionalization, finalizing the audit quality scorecard of the audit divisions, and guiding the support staff on their individual performance contracts. The team members devoted much time enhancing their respective chapters of the PMS guidebook to beat the October 15 deadline for submission to the printing contractor for lay outting and final packaging.

Events presented PMS to other parts of the Philippine government. In this quarter, the BIR showcased PMS during its anniversary celebration on August 1, 2005. LTS officials and EMERGE consultants briefed DOF Undersecretary Bonoan, who is the official responsible for the drafting of the Performance Attrition Act implementing rules and regulations (IRR), about PMS. LTS officials also briefed the Congressional Oversight Committee, which will approve

the IRR. According to these officials, the Committee plans to incorporate provisions in these rules acknowledging the importance of developing and using systems such as the PMS developed by EMERGE for LTS in implementing the law (see the related TA activity below for drafting the IRR).

Plans for the next quarter involve handing over the PMIS and the PMS Guidebook to BIR LTS. The LTS is interested in presenting the PMS to the Department of Budget and Management (DBM) and the Civil Service Commission. The activity will be completed next quarter. There are talks in BIR on conducting another pilot PMS, this time for a revenue region of BIR. Deputy Commissioner Hefti, who supervises regional operations of the Bureau, understands the importance of the PMS and the system of weights to account for responsibilities. She wants to roll-out the PMS to a BIR region in the first semester of 2006.

Implementing Rules and Regulations (IRR) for the Performance Attrition Act

EMERGE completed drafting the IRR of the Performance Attrition Act for DOF Undersecretary Emmanuel Bonoan. Atty. Cucyco worked with and discussed the draft IRR with the Task Force created for the purpose by Undersecretary Noel Bonoan. DOF Secretary Margarito Teves transmitted the draft to the Congressional Oversight Committee, which approves the document. The Congressional Oversight Committee for this law met several times in this quarter to go over the draft and approve it. As of the end of September, a final draft was being circulated.

Task 1.2.1.1 Selected Agencies' Re-structuring Plans Improved

After several meetings in previous weeks with DBM and the Development Academy of the Philippines (DAP), EMERGE in this quarter signed a purchase order (PO) agreement with DAP to provide DBM the services of experts to help it develop a profile of about twenty government sectors, identify their respective priorities in light of recent developments and opportunities for enhancing the efficiency of government operations, and review the plans of the various Secretaries to re-structure their respective departments and attached agencies and corporations to get rid of functions that have outlived their purpose and to move personnel to improve the implementation of core functions. No one under this EO will be involuntarily separated, as the personnel of terminated units will have the option to retire voluntarily or be considered for alternative jobs elsewhere in the bureaucracy. Not all departments are involved. DOE, DSWD, and some attached agencies under the Office of the President have been exempted from the Rationalization Program because they have just completed their own reorganizations.

The delay in implementing this task was due to the fact that the IRR of the EO was not released until May 2005. DBM Undersecretary Laura Pascua, who requested EMERGE assistance, is also working with the World Bank to help manage the change process.

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

At the request of Undersecretary Laura Pascua, this task is put off till the first quarter of 2006 because the DBM is tied up with restructuring the Philippine government. (See Task 1.2.1.1.)

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

This task has also been postponed to early 2006 at the request of Undersecretary Laura Pascua,

because the DBM staff is presently busy with 2006 budget preparation and the government restructuring program.

Task 1.2.2.3 Working Model to Predict Cash Inflows Installed at DBM

This activity is now completed. 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. A distinction is made between forecasting and target setting. While the latter reflects a desired level of revenues based on the medium term fiscal program, the former is based on a more realistic appreciation of current trends and capacities of the revenue bureaus and the taxpaying public for programming budget releases.

With the assistance completed, the DBM will decide whether it can now issue notices of cash allotments on a quarterly basis instead of the current monthly basis. DBM Undersecretary Laura Pascua desires to ensure a more stable and predictable program of cash allotments to agencies throughout the year to enhance their orientation toward results. The capability produced in this activity and the effort to measure government outputs serve to bring the government closer the planned Philippines Medium Term Expenditure Framework. While the importance of planning public expenditure for the medium term is important for stability and transparency, the predictability of revenues is a key element in that it builds credibility and ensures sustainability.

Undersecretary Laura Pascua, who requested this activity, would now like EMERGE to train selected staff of DBM on how to use the model.

Task 1.2.3.1 Customized Agency Manuals and Generic Procurement Manuals Aligned

Atty. Joel Syquia has completed his work to identify, for DBM Undersecretary Laura Pascua and the Government Procurement and Policy Board (GPPB), inconsistencies and misalignments with the government procurement reform law of the *procurement manuals* and the *bidding documents*. The manuals were completed with USAID assistance, while World Bank helped in drafting the bidding documents. The work that EMERGE completed comprises a matrix of inconsistent text in the manuals with that in the bidding documents, and misaligned provisions in either the manual or the bidding documents with the law. The consultant provides explanations for each finding. 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.

Training on procurement reform

EMERGE has been helping the Office of the Government Corporate Counsel (OGCC) train its legal staff and those of the Government Owned and Controlled Corporations (GOCCs) on the implementation of the Government Procurement Reform Act. In this quarter, a total of 100 trainees participated in the two training events conducted on July 14 - 15 and August 17 - 18, 2005. A third training event is planned for October to complete this activity. The OGCC head, Justice Agnes Devanadera, asked whether EMERGE could help her office pursue such training for the GOCCs in the energy and water sectors.

Task 2.1.2.2 Customs Risk Management System Improved

The EMERGE TA and the activities of the CEPR consultant team at the Bureau of Customs has

changed direction due to the change in leadership at the bureau. This affected the team's deliverables in all three modules of the purchase order (PO). The TOR was designed based on the TA requested by the then Commissioner Alberto Lina, who resigned on July 8. However, Acting Commissioner Alex Arevalo expressed his preference, in a number of meetings held during the quarter between him and EMERGE, for TA activities that differ from those identified in the TOR. The deliverables Arevalo wants to change are the creation of the Committee on Revenue Enhancement (CORE) and Customs Audit Management Committee (CAMC). He also wants the CEPR team to focus its risk management work on liquidation and billing and the super green lane. In response to his request, EMERGE worked on how to restructure the scope of work of the CEPR team. EMERGE drafted amendments to the TOR and gave them to CEPR for comments. The amended TOR will be finalized and submitted to USAID for approval in October.

During this quarter, the CEPR team submitted their outputs for the second and third tranches. The team revised their outputs for the second tranche based on EMERGE comments. CEPR then submitted third tranche deliverables on liquidation and billing, but requested a five-week extension for the submission of the third tranche deliverables for the risk management module.

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

The TOR for the Cesar Virata and Associates, Inc., (CVAI) to implement the TA to streamline the administration of sanitary and phyto-sanitary measures at the Department of Agriculture (DA) was approved by USAID on July 1. The work excludes SPS measures on fisheries and fishery products because the EU has a current technical assistance activity on SPS with the Bureau of Fisheries and Aquatic Resources. The TA is expected to be completed in January 2006. The CVAI team has completed the first draft of their first deliverable, which is a study on SPS regulations and their importance to Philippine trade. EMERGE is evaluating the draft. The team has commenced work on the deliverables for the next quarter. These include: (i) a report on the current systems of SPS administration in four key SPS regulating agencies, namely: Bureau of Plant Industry (BPI), Bureau of Animal Industry (BAI), National Meat Inspection Commission (NMIC), and the Bureau of Agriculture and Fisheries Product Standards (BAFPS); and (ii) a report on the evaluation of the appropriateness of the current SPS administration system. In preparing the two reports, the team will be holding separate workshops and consultations with the above agencies and stakeholders (exporters and importers).

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

This task was completed in the first quarter of 2005. The draft Bureau of Food and Drugs (BFAD) guidelines on the labeling of processed foods containing GMOs are now being reviewed by the Policy Division of the Department of Health (DoH) for final approval.

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

The International Support for the Acquisition of Agri-biotech Applications (ISAAA) assisted the Department of Agriculture (DA) in finalizing the draft protocols and instruments on insect resistance management (IRM) monitoring and reporting. The protocols have been accepted by the DA Bureau of Plant Industry for review and adoption. ISAAA also assisted the DA conduct a nationwide acceptability survey for the implementation of the IRM strategy for Bt corn in July

and August 2005. The consultant team then assisted the DA Technical Working Group on IRM analyze the preliminary results of the survey. A series of post-survey meetings were held to improve the current IRM strategies based on farmer acceptability and implementation practices. For next quarter, the team will assist the DA finalize the draft protocols on field testing and the BFAD guidelines on standards for substantial equivalence.

Task 2.2.1.3 The Filipinos properly informed and educated about modern biotechnology

The Biotechnology Coalition of the Philippines (BCP) consultant team assisted the DA in the conduct of the first National Biotech Week held July 1-8, 2005. 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 the 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.

Other accomplishments of the BCP consultant team during this quarter include the following: (i) a biotechnology seminar for the local government officers of Mindoro Oriental held on August 19; and (ii) a public seminar for an indigenous people’s group and farm leaders, held Aug 30-31. For the next quarter, the team is expected to continue strengthening the technical expertise of BFAD-DoH and DA personnel through capacity building activities and improving public awareness, knowledge and appreciation of modern biotechnology through IEC activities.

Task 2.2.2.1 Improving the Investment Climate

During this quarter discussions were held with USAID on the proposed diagnostic study on improving the investment climate for non-traditional coconut-based industries. The TOR was first submitted to USAID for approval in May 2005. In a Sept. 15 meeting, Bob Wuertz of USAID/OEDG said he would approve the proposed TA and asked that EMERGE resubmit the written request for approval with new dates for the activity. This was done on September 20, after having to replace one of the original team members. The TOR is expected to be approved by USAID in October.

BOI Governor Consuelo Perez has yet to give EMERGE the concept paper for the TA she requested to help improve the investment climate in the ICT-based services sector, possibly waiting for the coconut diagnostic study to be approved first. During the next quarter, EMERGE will coordinate with BOI to prepare the concept paper and the TOR for this next activity under this task.

Task 2.2.3.1 Strategic Development Initiatives

EMERGE hired Mr. Toti Chikiamco to explore the feasibility of using land tax declarations to

secure bank loans. Former NEDA Director General and now DBM Secretary Neri requested this TA to help improve credit access in the regions. The consultant found that since the Asian Financial Crisis of 1997, the Bangko Sentral has tightened prudential regulations and has discouraged rural bank lending on tax declarations by disallowing the rediscounting of loans so secured. Tax declarations could be acceptable as collateral only on lands that have already undergone cadastral mapping. This would limit risks inherent in extending loans secured by tax declarations, which may overlap existing property claims. Even if the Bangko Sentral ng Pilipinas would allow rural banks to lend against tax declarations for agricultural land that has undergone land reform, the banks would not be able to sell such land if foreclosed except to qualified agrarian reform beneficiaries, who are often too poor to acquire them. Thus, he recommended that the government review the Comprehensive Agrarian Reform Law (CARL), because CARL limits the market for foreclosed agricultural properties to qualified agrarian reform beneficiaries.

Mr. Chikiamco recommends that administrative and legislative reforms be undertaken to solve this problem and to facilitate land titling in the regions. Half and possibly sixty percent of all land parcels in the Philippines remain untitled, and a significant portion exists with no formal document of ownership, except for tax declarations by self-proclaimed owners.

Task 3.1.1.1 The nautical highway developed and access to it institutionalized

The EMERGE team drafted an Executive Order (EO) that will allow private non-commercial ports to convert to private commercial ports under the Road RoRo Terminal System (RRTS). 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” was signed by President Gloria Macapagal Arroyo on September 19, 2005.

The team reviewed the draft RORO bill and submitted a revised draft with amendments to Rep. Augusto Baculio, Chairman of the House Committee on RoRo and Railways, with the endorsement of the Federation of Philippine Industries.

The team drafted an action plan outlining a safety net program for affected port workers, including possible sources of funds to finance it. The proposed program was included in the original draft EO 170-B as one of its provisions. However, since the provision on Chassis on RoRo (CHaRo) was deleted and held over to be the subject of a separate EO, the provision on the safety net program for port workers was likewise held over.

The EMERGE team also provided comments to improve Philippine Ports Authority (PPA) Administrative Order (AO) 03-2004 or Guidelines on the Development, Construction, Management and Operations of Ferry Terminals under the RRTS. This task is now complete.

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

This task is still on hold since the Development Bank of the Philippines (DBP) gave priority to the promotion of the RRTS (Task 3.1.1.3). EMERGE may start work on this task in the first

quarter of 2006.

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

DBP and EMERGE reviewed and approved the draft SOW on RORO shipping. EMERGE submitted the CVs of proposed consultants to DBP for review and approval, and the team's composition is still under discussion. EMERGE may start work on this task the last quarter of 2005 upon USAID approval.

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

The EMERGE team submitted the draft Final Report to both the Road Board Secretariat and EMERGE on 23 August 2005 for review and comments. EMERGE reviewed the draft and provided comments and guidance for improvements in the draft. The Road Board secretariat is making arrangements for a presentation of the revised draft to the Road Board, which should occur in November 2005.

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

The NTC issued Memorandum Circular 05-08-2005 (5 August 05) re: Voice over Internet Protocol (VoIP). Under the newly issued rules, VoIP has formally been classified as a Value-Added Service (VAS). EMERGE continues to assist NTC by helping draft the implementing rules for the VoIP Ruling. This is a major indicator of GRP success due in part to EMERGE TA, which itself has thereby achieved an important performance milestone.

The NTC also issued an Order this quarter finally resolving the Motion for Reconsideration dated 24 May 2005, which dealt with the well-publicized price wars between Cellular Mobile Telephone Service (CMTS) competitors. In the process, the NTC, consistent with recommendations from EMERGE consultants (as part of ongoing TA to the NTC on the formulation of a competition policy framework for the ICT sector), issued interim guidelines for innovative price plans that, in the main,

- (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 further 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.

From a higher policy perspective, these rules not only reaffirm the NTC's commitment to fair and equitable competition in the telecommunications sector, but also to increased consumer choice and welfare. They will signal a subtle development in NTC's approach to competition policy—one that recognizes and actively promotes the role of the consumers, and not just the telecom players, in driving competitive outcomes for the sector. Another EMERGE performance milestone for this task has thus been achieved.

Task 3.2.1.2 Competition policy for ICT sector formulated and implemented

EMERGE consultants presented a draft consultative document for competition policy to the NTC on September 21, 2005. EMERGE consultants are revising the draft following comments during the presentation. Round table discussions of the revised consultative document are expected in

the last quarter of 2005 and first quarter of 2006. The objective is to solicit comments on the consultative document from stakeholders.

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

The Last Mile Initiative (LMI)-Philippines drafted by EMERGE consultant Atty. Alampay was submitted to USAID/Washington by USAID/Philippines and approved. USAID/Philippines asked EMERGE to implement the LMI-Philippines. It formally commenced in September. EMERGE consultants are holding a series of meetings with potential partners in government, Congress, private sector and civil society.

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

EMERGE submitted a revised draft TOR to the DOF Municipal Development Fund Office (MDFO) for review and approval, which is still under discussion. EMERGE expects to finalize the TOR and come to agreement on the consultants for the TA by the next quarter. Work may start in November or early December after MDFO and USAID approval.

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

Although the BOT Law IRR Amendments have not yet been formally approved and announced, EMERGE submitted a request to USAID for approval of a legal team to draft BOT Law amendments on August 10, 2005, in preparation for the next step.

Task 3.4.2.1 Privatization of state-owned enterprises

Bernie Carmody, Nathan Associates Inc., and Thomas M. Flohr, CARANA Corporation, completed their work in July 2005 after four weeks of consultations in Manila. They submitted and discussed a draft report on a strategy for the privatization of government assets. Undersecretary Singson, who heads the DOF Privatization Office (DOF/PO), accepted the report and its main recommendations and requested follow-on TA from EMERGE. At his request, 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. EMERGE has submitted the draft TORs and some prospective team member CVs to DOF/PO for review and approval. Work on the first TOR is expected to commence in the last quarter of 2005, with the other one to follow, as soon as acceptable, qualified consultants can be found and approved by DOF/PO and USAID.

DOF/PO also requested EMERGE to purchase a book by the Media Entertainment & Consulting Network (MECN) book on *Privatization of State-Controlled Gambling Operators*, London/Munich, July 2005 (\$975), following a directive from Finance Secretary Teves them to study the possible privatization of PAGCOR. The USAID CTO approved this purchase and it was obtained electronically, printed, and provided in hard copy to DOF/PO on August 12, 2005.

Task 4.1.1.1 Technical Assessment of saving patterns and behavior

The separate requests for technical assistance from the CMDC and the Bangko Sentral ng Pilipinas have been combined. The revised SOW has been sent to the counterparts and BSP Deputy Gov. Espenilla has requested additional consideration for the consumer finance survey to be conducted simultaneously with the demographic assessment.

Task 4.1.1.2 Defining the Philippine Capital Market Reform Agenda

The draft report on Core Principles and Enabling Environment has been completed and distributed to the counterparts (BSP and BAP) as well as to capital market stakeholders through the CMDC. The workshop is set for October 24 at the BSP, and former Gov. Buena Ventura has agreed to provide the Keynote address.

Task 4.1.1.3 Policy Review of Financial Sector Taxation

The consultants were requested by the counterpart (CMDC) to meet with each and every capital market organization to hear views on the contentious issue of financial taxation. While the legal review by the consultants has been completed, the time spent on meeting with market players has forced the consultants to request a postponement of their mid-term deliverable from late-September to 3rd week of October.

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

Notwithstanding several follow ups with the Market Regulation Department, SEC has not yet submitted a draft SOW for their requested TA on a risk management framework for Pre-Need firms.

Task 4.1.2.2 Financial Risk Management Framework for PDIC

The previous draft SOW prepared by PDIC has been re-structured into five smaller tasks for more effective project management. The initial component of the sequential tasks is for a capacity-building exercise for Senior Management on risk management issues and the draft SOW for this task is being finalized. It should be ready for USAID review and approval during the next quarter.

Task 4.1.2.3 Upgraded Framework for PDIC Inspection

A draft SOW has been sent to the senior management of PDIC for final concurrence. The task will focus on evaluating PDIC's Off-Site Bank Rating Model and improving its ability to anticipate bank and systemic difficulties. This task can now be pursued either ahead of or simultaneously with task 4.1.2.2, instead of the previous view of conducting it after the completion of task 4.1.2.2.

Task 4.1.2.4 Valuation and Risk Parameter Estimation for BSP

The inception report of Mark Bates, consultant for crafting a uniform Real Estate Appraisal framework, was discussed with and accepted by BSP Deputy Gov. Espenilla. To provide for a clearer timeline of the recommended reforms, Gov. Espenilla requested follow up TA (which was subsequently sent to and approved by USAID in early October).

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

The initial July review by Fr. Paul McNelis of the situation in the Philippines was discussed and submitted to BSP. A follow up engagement for Fr. McNelis, covering 4 on-site trips over a period of 1 calendar year, has been structured with the active participation of the BSP. (The SOW was sent to USAID for approval in early October).

Task 4.2.1.1 Technical Simulations & Assistance to Support the PERA Initiative

After extensive discussions both with EPRA, it was agreed that EPRA would take this task and

submit a proposal for grant funding consideration of EMERGE. EPRA recently submitted a project proposal, which upon initial review needs to be further aligned with the original request of CMDC. This will be sorted out during the next quarter.

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

The report of ISC, through Valerie McFarlane, was submitted outlining the various issues and recommended solutions for the launch of the Public Market later in the year. The technical review of the report has been completed both by EMERGE and PDEX and the final Full Report is expected in October. PDEX now envisions a Public Market launch by November 2005.

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

As of end of quarter, the amendment to the SEGIR IQC to allow grants under the task orders had not yet been issued from Washington, D.C. However, information from the CARANA home office indicated that the proposed amendment was in a queue for signature and could be expected to be signed and released by October.

Grant Activity: Access for Competitiveness and Trade

The TOR for Phase I of this proposed TA was completed last quarter. The activities during this quarter were spent on recruiting personnel for the proposed positions. PACT had difficulty in finding qualified people for the proposed positions. EMERGE plans to use SAF funding for Phase I pending grant authority, because of the urgent need to get the activity started as soon as possible; but if EMERGE is authorized to issue grants soon enough the TOR will be submitted as a grant to USAID for approval during the next quarter.

Grant Activity: Mining

EMERGE prepared, in collaboration with PACT, the TOR for increasing the social acceptability of mining in the Philippines through a balanced mineral-mining industry development. The TA is to be implemented by PACT with grant funding from EMERGE when grant authority is finally received. PACT is finalizing the budget. The TOR will be submitted to USAID for approval as a grant in November 2005. Implementation of the TA is expected to commence before the year ends.

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

WTO e-learning activity. EMERGE started negotiations with the Earth Council Foundation (ECF) US to be the subcontractor for the activity in July. Negotiations with ECF US were halted because the ECF US Board was not comfortable with the EMERGE subcontract terms. The activity design group, consisting of the DTI, EMERGE technical staff and Earth Council US, favorably endorsed the Institute for Agriculture and Trade Policy (IATP) as a replacement subcontractor. Following a pre-award review of IATP's eligibility as a subcontractor, consent and approval to sole-source IATP was granted by USAID on July 29. The subcontract to IATP was finalized and executed by the CARANA Corporation for EMERGE on August 22. IATP started work by organizing the project steering committee with the first meeting held on August 23, 2005.

SPS. The purchase order (PO) to C. Virata and Associates (CVAI) was issued in July to implement this activity on streamlining SPS regulations, and the team started work in the third week of July.

Biotechnology. The PO issued to the Biotechnology Coalition of the Philippines (BCP) was amended to realign a portion of the budget for direct payments into the BCP's reimbursable funds. The realignment was made to facilitate BCP's advocacy activities, particularly those outside of the Metro Manila area. BCP submitted their deliverables for the 2nd tranche and were accordingly accepted by the counterpart and EMERGE.

On Customs Risk Assessment. As a result of the redistribution of assignments between EMERGE and the EU in the provision of TA to the Bureau of Customs at a meeting with EMERGE, CEPR and Commissioner Arevalo, the TOR required amendment to reflect the changes. The redistribution of the assignments involved the EU donor taking over some of the assignments in the PO issued by EMERGE to CEPR. The PO will have to be adjusted accordingly. The SAF Manager provided her comments on the draft TOR amendment, and she will renegotiate the budget with the vendor, CEPR, as soon as the amendment is finalized and approved by the USAID CTO.

On Fiscal Sustainability. A PO was issued to the Development Academy of the Philippines (DAP) on August 18 to assist the Department of Budget and Management (DBM) conduct its review of reorganization plans of 10 departments and attached agencies of the government. The PO was amended shortly after execution to restructure the payment tranches per DAP's request. The revised payment tranches are expected to facilitate payments to the sector experts hired by DAP for the activity.

Participant Training. The processing for the US NASD training of Attys. Felizmenio of SEC and Lerer of PDEX was started in September. Documents required for securing the J-1 visa for participants were gathered and validated. Trainet entries of the participants' personal information were made in preparation for the issuance of the J-1 Visa Compliance document from the Trainet Office in Washington, D.C. The submission of the required documents were not completed by end of the quarter.

Other SAF Activities

EMERGE provided financial assistance to the following activities during the quarter:

- DOF Planning Workshop. Mr. Alex Escucha was engaged through a PO to facilitate this workshop held on July 7-8, 2005
- WTO consultations among the different business sectors in Mindanao, Visayas, NCR and Manila during the months of August and September. The results of the consultations will be used to develop a government framework and position for the forthcoming WTO ministerial meeting in Hong Kong.

SAF Activity: WTO e-Learning Program

The TOR and budget for the WTO e-Learning Program was approved by USAID on July 7. The TA will be implemented by the Institute for Agriculture and Trade Policy (IATP). Accomplish-

ments during this quarter were focused on the program's pre-implementation activities, namely: (i) meeting of the Project Steering Committee (PSC) composed of DTI, EMERGE and IATP on August 31; (ii) meeting of the PSC with HRD Directors of participating agencies on August 31; (iii) preparation of the program's collaterals: brochure, posters, website; (iv) allocation of slots among the participating agencies/NGOs; and (v) recruitment of participants. There has been a mixed response by the participating agencies on the proposed program. Some agencies requested more slots while other agencies/NGOs had difficulty filling up their slots. On the latter, the problem stemmed from the absence of champions in the agencies. Invitation letters were not filtered down to subordinate bureaus or units agencies. To address the problem, the IATP conducted an orientation on the e-learning program for individual agencies that had problems meeting their slots. Likewise, the PSC decided to reallocate more slots to agencies requesting additional slots. The program will be launched on November 16. Launching activities will include the signing of a MOA between the DTI and participating agencies and the opening of the first on-line session.

SAF Activity: Mining

The EMERGE mining team completed its work for former NEDA Director-General and Socio-economic Secretary Romulo L. Neri, who requested this team to identify measures to improve the investment climate for mining and realize the economic potential of the country's mining sector. In its draft final report, the team states that the government needs to correct disincentives to investment in the minerals industry such as high taxation, conflicting laws and inconsistent implementing rules and regulations. Streamlining the mining-related licensing and permit processes is needed to reduce transaction costs of investors. The negative perception about the minerals industry of the general public, which has seen the negative consequences to localities of poor environmental management by industry stakeholders, needs to be reversed and improved.

The potential benefits to the economy of undertaking these reforms to attract more investment in the minerals industry are high. The team notes that if the Rapu Rapu Polymetallic Project of Lafayette Phils. Inc. in Albay, HPAL Nickel Processing Project of Coral Bay Mining Corp. in Palawan, and Diwalwal Direct State Utilization Project of NRMDC in Compostela Valley were operating now, these businesses could be expected to yield \$114 million annually. In the next five years, improvements in the investment climate could realize about \$1.7 billion of foreign direct investments in five large-scale, world-class and highly profitable mining projects with combined annual revenue amounting to \$899 million. EMERGE is working with the team to finalize its report.

SAF Activity: Land Reclamation

Atty. Jerry Dacayo completed his assignment on land reclamation legal issues for former NEDA Director-General and Socio-economic Secretary Romulo L. Neri. Secretary Neri requested the consultant to identify measures to explore ways to attract investments in land reclamation. The need for this work stems from the Supreme Court (SC) decision on the PEA-Amari case, which poses a legal impediment to investments in land reclamation. After reviewing selected laws that are relevant to land reclamation and the SC decision, the consultant suggests that PRA (former PEA) revise its guidelines to:

- Provide for a sharing scheme consistent with constitutional, legal and jurisprudential limitations;
- Specify/clarify the possible exceptions to the general policy that reclamation shall be undertaken with no financial exposure or guarantee by the government;
- Expressly and unequivocally provide that land reclaimed by a chartered city or municipality is owned by such city or municipality as its patrimonial or private property (as distinguished from public land); and
- Limit the application of the warranty bond requirement only to cases where the investor will embark on post-reclamation works like development and improvement of the reclaimed land.

Atty. Dacayo also suggested that foreign investors enter into joint venture agreements with PRA and/or LGUs in land reclamation. These JVAs would need to provide for a sharing scheme on the revenue and/or profits only. If ownership of the reclaimed land is important, the consultant identifies legal means to meet this objective, given constitutional restrictions to foreign ownership and the SC decision on the PEA-AMARI case. The consultant proposes an Inter-Agency Committee among the PRA, LLDA, DBP, DILG and NEDA to facilitate close and active coordination in the study and resolution of any and all reclamation issues.

SAF Activity: Re-forestation/Agroforestry

EMERGE finalized, in collaboration with PACT, a TOR for the proposed TA on implementing and institutionalizing the Agro-forestry Puno ng Buhay Program in the Autonomous Region of Muslim Mindanao (ARMM). Much of the effort this quarter was spent on helping PACT prepare the budget for the TA. Following the finalization of the TOR the Grants and SAF Manager reviewed the budget proposal for the activity submitted by the proposed vendor, SAMASA, and provided comments to be reflected in a revised budget. The budget review will resume upon receipt of the revised budget addressing those comments and submission of the required biographical data sheets of proposed experts. The TOR will be submitted to USAID for approval next quarter.

TASK 4 - SO2 Monitoring, Assessment, Reporting

Draft and establish a TIERG performance monitoring plan (PMP). The SO2 Monitoring and Evaluation (M&E) Manager discussed the draft EMERGE PMP containing the expanded list of indicators that he developed the previous quarter with the team leaders and the concerned consultants. He then improved and modified the PMP based on these discussions and presented the same to the USAID CTO. He developed a performance monitoring worksheet to improve and make performance monitoring easier and will submit updated versions of this report to USAID as an attachment to the EMERGE quarterly report.

Organize an SO2 performance monitoring and evaluation team (PME Team). The SO2 M&E Manager developed initial portions of a TIERG performance monitoring plan. He continued working with EPRA and PACT M&E specialists to help them develop their respective sections, providing them a draft template to start them off. He also attended the EPRA strategic planning workshop and met several times with EPRA managers to provide inputs into building an EPRA results framework.

Review and present amendments to the SO2 SOW templates. The SO2 M&E Manager drafted a list of proposed performance monitoring and evaluation policies relating to tasks financed by SAF and grant funds. He will propose to include the discussion of these draft policies in the strategic planning workshop, the SOW of which he also designed. He will also propose amendments to the EMERGE SOW templates to accommodate some of these policies.

Respond to regular and special USAID requests for SO2 performance analyses. At the request of USAID, the M&E Manager drafted a list of GRP policy reforms that USAID TA helped achieve last year and submitted the same to the EMERGE COP.

TASK 5 - Public Information and Consultations

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

The EMERGE website is up and running. It is periodically being updated with latest news and features from various projects of EMERGE.

During this reporting period the Public Information Manager accomplished the following major tasks:

- Discussed with DLSU/AKI consortia the draft copy of the media plan for the VOIP campaign outlining strategies and schedules of media sorties and editorial support for any plans to promote VOIP in the press and in various concerned agencies and organizations; the draft media plan may be used by the DLSU consortia as a guide in its advocacy program for VOIP.
- Designed the cover sheet/title page for technical reports of the EMERGE Project.
- Hosted and moderated a two-day training program for the Office of Government Controlled Corporations (OGCC) on the Public Procurement Law for lawyers of government-owned and controlled corporations.
- Assisted Earth Council draft press releases on the WTO eLearning Program. The Earth Council sought assistance from the Public Information Manager to review two press releases it plans to distribute to the local press.
- Wrote and edited a success story for USAID *Frontlines* on the NTC MC on VOIP. Interviewed resource persons for, wrote, and edited a human interest *Frontlines* article requested by USAID on the possible impact of VOIP on end-users.

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

B. Administrative Information

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

Section II - PROJECT OFFICER'S COMMENTS

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

Section III - CONTRACT OFFICER'S COMMENTS

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



USAID
FROM THE AMERICAN PEOPLE



MEMORANDUM

DATE: October 30, 2005

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

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

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

SUBJECT: EMERGE Project Quarterly Report – July 1 to September 30, 2005

Attached for your review is the complete EMERGE Project's 4th Quarterly Report, including the quarterly expenditure report, covering the period July 1 to September 30, 2005, in compliance with Section 7.1.3 of the referenced contract.

A hard copy is being delivered for your files.

Atch: a/s