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The Philippines is an archipelago of 7100 islands with a population of 76 million people, of which about 20 million live below the one dollar per day poverty line. The 2000 Gross National Product per capita was US$ 1040.

The present paper reviews the main policy objectives of the European Community and the priorities of the Government of the Philippines reducing poverty, as set out in the Mid Term Development Plan. It also takes into account key political developments such as the turbulent government change in January 2001 and the driving forces behind the change i.e. citizens' impatience for improved living conditions, decisive institutional reform and improved governance, and enhanced internal security.

Reforms introduced by previous administrations may be reaching their limits. Attention must be paid to: exports, with 60% of its currency earnings coming from one industrial sector (electronics); fiscal policies, with low level of government revenue; further structural reform (banking system, corporate financial restructuring); foreign direct investment, which has been decelerating since 1996, underlining the erosion of investor confidence.

The country's performance in poverty reduction has fallen short of the accomplishments of its south-east Asian neighbours and growing inequality of incomes has reinforced the incidence of poverty. Poverty is predominantly rural, accounting for nearly two thirds of the national total. The Government of the Philippines faces an enormous challenge in providing basic infrastructure, basic health and social protection to reduce the vulnerability of the poor.

During the period 1992-2000 the EU was the second largest source of grants, after Japan. Overall EU assistance to the Philippines is however decreasing. The EC announced during the 1998 Senior Officials Meeting that its assistance would be reduced.

To manage this evolution smoothly and to integrate horizontal Community policies, a series of principles were agreed in the 1998 SOM. These include: maintenance of poverty reduction as a priority; narrower geographical focus, with Mindanao remaining a priority; consolidation of achievements of existing (mainly rural development) projects; exploration of a sectoral approach in the medium term. Institutional reform and good governance should underpin the co-operation.

The strategy developed has taken into account lessons learnt from past EC-Philippines co-operation, resources available and the need to reinforce co-ordination with other donors, in particular EU Member States, so as to facilitate the attainment of a critical mass, secure complementarity and raise the EU profile.

In order to support the sustainable development of the Philippines during the period 2002-2006, the strategy outlines two main areas of concentration for EC-Philippines co-operation. These are: assistance to the poorest sectors of society, and facilitation of trade and investment. Within these two focal points, strategic choices for co-operation are presented, reflecting specific EC cross-cutting policy concerns.

Other areas of co-operation include human development and rights, and stability and security. Measures in these areas will mainly be supported through horizontal EC instruments, encouraging synergies with the two main areas of EC-Philippines co-operation and the various existing EC instruments. Finally, co-operation in education, culture and science and technology is emphasised as a tool to enhance real partnership and facilitate visibility of the EU in the Philippines and vice-versa.
1. EU CO-OPERATION OBJECTIVES

In 1984 the EC-Philippines Framework Agreement was signed, outlining the general conditions for providing EC technical assistance and co-operation. Given that no specific bilateral Co-operation Agreement exists, co-operation objectives need to be defined taking into account the existing legal and regulatory framework.

The existing EU Treaties and Regulations define a series of objectives which determine relations with the Philippines. For example, the Treaty of the European Communities sets areas for co-operation such as the promotion of trade between EU member States and third countries and of sustainable economic and social development of developing countries. The "ALA" Council Regulation (1) of February 1992 states that respect of human rights, fundamental freedoms and democratic principles are preconditions for lasting economic and social development.

In July 1994, the European Commission proposed in a Communication a new strategy for co-operation with Asia (2), updated in September 2001 (3). Particularly relevant priorities for relations with the Philippines are:

- to contribute to peace and security in the region and globally;
- to further strengthen mutual trade and investment flows;
- to contribute to sustainable development and to poverty alleviation in the least prosperous countries of Asia;
- contribute to protection of human rights and the spreading of democracy, good governance and the rule of law;
- to build global partnerships and alliances in appropriate international fora;
- to raise the EU's profile in Asia and vice-versa.

The Philippines is an active partner of the ASEM process and of the ASEAN regional grouping. Therefore, EC objectives with both must be properly taken into account. The European Communication on ASEM (4) sets the EU priorities for co-operation. It aims to promote a constructive dialogue on the three pillars of political, economic and financial, and cultural and intellectual issues. In particular the focus for co-operation in the next decade will be placed on the following major topics: regional and global security; trade and investment, socio-economic issues and regional macro-economic co-operation; consumers dialogue between regions; science and technology; educational exchanges.

The Co-operation Agreement (5) of May 1980 between the European Community and the countries of ASEAN of which the Philippines is signatory, puts the emphasis on commercial co-operation, granting reciprocally most-favoured-nation treatment and committing partners to overcome trade barriers; economic co-operation encouraging closer links through investment and technological progress; development co-operation contributing to economic resilience and social well-being.

It is against the above-mentioned background that EU co-operation with the Philippines must be examined.

(1) Regulation 443/92: on financial and technical assistance and economic co-operation with developing countries in Asia and Latin America
(2) COM 94 (314), 13 July 1994
(3) COM 2001 (469), 4 September 2001
(4) COM 2000 (241), 18 April 2000
2. THE PHILIPPINES POLICY AGENDA

The Philippine Government’s Medium Term Development Plan (MTDP), 1999 - 2004, currently under revision, should be seen as the country’s general framework for achieving its poverty reduction targets and vision of uplifting the quality of life of all Filipinos.

The Plan sets the objective of reducing the number of poor families and the incidence of poverty from 32.1% in 1997 to 25-28% by 2004 (6). In support of this policy the Plan defines the following priority areas:

- **Acceleration of rural development.** The aim is to accelerate agricultural growth through a comprehensive modernisation programme which will make the sector internationally competitive and will increase the earnings of farmers. *Land redistribution* will remain a priority but the attraction of greater domestic and foreign capital and technology will be equally important.

  Ultimately, the pace of modernisation is likely to depend on increased private sector investment and the influx of foreign direct investment.

- **Delivering Basic Social Services.** The main features include prioritising basic social development services in areas of health and nutrition, education and training, housing and social welfare and other social safety net programmes in accordance with the Social Reform Agenda. These are designed to protect the most disadvantaged sectors of society and eventually to empower them. In parallel to this, the government will carry out reforms in the education system to allow the Filipino people to be more productive and, consequently, the country to be more competitive in the global economy.

  The government will also pursue a population programme that respects cultural and religious beliefs

- **Enhancing Global Competitiveness.** The government will continue market-oriented policies on privatisation, deregulation and liberalisation which will help the private sector to flourish as an engine of economic growth. It will also encourage investment in education, and science and technology in order to raise local productivity and to sustain growth in output and employment.

  Foreign capital and technology will be encouraged to augment domestic resources and to improve the country's technology base.

- **Ensuring Macroeconomic Stability.** The Administration will continue to co-ordinate fiscal, monetary, financial and exchange rate policy to reduce interest rates and inflation, and mitigate the effects of speculative attacks on the peso. The government will strengthen the supervisory and regulatory capabilities of agencies concerned with the financial and corporate sectors. It will also rationalise public expenditure, strengthen the banking system and promote policies to increase the country's levels of saving.

- **Accelerating Infrastructure Development.** Private sector investment will continue to be encouraged in power, water, transport and telecommunications. The government will intervene, as necessary, to address the infrastructure investment required for the development of rural areas e.g. rural roads, irrigation, ports, bridges and rural water supply systems. These facilities will link more remote rural communities to markets in other areas of the country and regions of the world.

- **Reforming Governance.** The efficiency of public service will be enhanced and there will be a more equitable sharing of responsibilities and resources with *Local*...
The government will continue to work in partnership with the private sector and civil society in the delivery of public services. Criminality and corruption will be addressed by reinforcing the five pillars of the justice system: the courts, prosecution, law enforcement, correction and community involvement.

The MTDP is substantial and ambitious. However, it has been characteristic of the Philippines that actual implementation and enforcement has been a major obstacle to economic reform. EC support is intended to assist the government to increase the chances to achieve MTDP goals. The EC will follow up keenly the Philippines commitment to implementation of the MTDP to ensure that EC support is best utilised.

3. COUNTRY ANALYSIS

The Philippines is an archipelago made up of 7100 islands with a land area of 300,000 km². The islands stretch over an area of 800,000 km². The country’s climate is tropical.

The population of the Philippines numbers approximately 76 million people; with a current annual growth of 2.3%, it will become 100 million by 2012. The country’s main religion is Christian (92%) with Muslim (5%) and Buddhist (3%) minorities. English is widely spoken. Tagalog is the main national language, with Cebuano the main language of the Visayas and Mindanao, while ethnic groups throughout the country speak some 104 dialects.

3.1 Political situation

The Republic of the Philippines, a democratic and republican state, has a presidential form of government since its citizens ratified a new Constitution in February 1987.

In the presidential elections of 11 May 1998, following a pro-poor electoral campaign, Mr. Estrada was elected for a six-year term, as the thirteenth president of the Philippines. After a period of unsuccessful negotiations with the Islamic guerrillas, he opted for a military solution. An impeachment process against Mr. Estrada for corruption blocked in the Senate, led to massive public protests and to the withdrawal of support by national institutions.

In January 2001, the Supreme Court declared the Presidency vacant and Vice-President Mrs. Macapagal-Arroyo was sworn in as the new President of the Philippines. In her inauguration speech, Mrs. Macapagal-Arroyo stressed her priorities: the fight against poverty, the promotion of good governance, and political reform: from a patronage and personality based-approach to that of party programmes.

The Philippines has a free press, a vibrant civil society, a pluralistic party system and a functioning electoral process, although criticisms are made in regards to alleged vote buying. Although progress has been made since 1986 to eradicate patronage from government and to enforce the rule of law, international surveys confirm that much remains to be done to improve bureaucratic and judiciary effectiveness, as well as to enhance a culture of accountability.

A challenge to Philippines internal stability is the persistence of violent guerrilla movements. There are two main types of guerrilla movements: communist and separatist Islamic ones. These movements are fuelled by poor living conditions and poverty. Therefore, peace efforts continue but progress depends - inter alia - on the Government’s capacity to address poverty.

In this regard, it can be noted that the incidence of poverty in the Autonomous Region of Muslim Mindanao (ARMM) is significantly higher than the Mindanao average and
double the national average. The same link can be found in the Muslim region of Central Mindanao.

The decision by the government to resort to military power to control the guerrilla movements in Mindanao in 2000 had an important impact on local populations, raising the number of internally displaced people to several hundreds of thousands. Not surprisingly, these restive regions also report human rights violations by armed groups.

The human rights situation in the Philippines continues to be a matter of concern. In particular, in 2000, a moratorium on executions was declared. However, since the moratorium has lapsed, no new death sentences have been carried out.

The Philippines participate actively in Asian regional mechanisms that promote new forms of political co-operation. Progress in regional co-operation seems most advanced in the economic area, such as the ASEAN Free Trade Area and the Asia-Pacific Economic Co-operation. The Asian financial crisis changed this scenario of growing regional self-confidence overnight, exposing the region’s economic and security vulnerabilities.

Until June 1997, the East Asian area of the Asia-Pacific had been more stable than at any time in previous decades. The Cold War was over but the security problem in the South China Sea remained unresolved. The ASEAN Regional Forum (ARF) introduced for the first time in the region’s history a body for security consultation and co-operation that included all the major powers.

The insistence of China, one of the region’s claimants for the South China Sea, is of particular concern to the Philippines. Recently, the Philippines and the United States signed a Visiting Forces Agreement in the interest of the Philippines and the region. The VFA has consolidated the US role as one of the most important economic, security, and political partner of the Philippines.

Another source of concern for the Philippines, as well as for neighbouring countries, is the expansion in the region of fundamentalism and secessionism. The Organisation of the Islamic Conference has intervened in the past to assist in negotiations between the government of the Philippines and the Moro National Liberation Front. Currently, some members of the OIC are more reluctant to interfere in the internal affairs of an ASEAN partner. Also worrying is growth in the region of the kidnapping industry, which in the Philippines, some minority groups like the Abu Sayyaf have exploited in the southern part of the Mindanao, enjoying world-wide media coverage.

3.2 Economic and social situation

3.2.1 Structure and performance

From the 1950s to the 1970s, the rate of growth of the Philippines was above 5%. The international debt crisis of the 1980s and domestic political upheavals brought growth to a halt.


It should be noted that the industrial share in the economy has shrunk from more than 37% two decades ago to around 30% in 1999, in contrast to strong industrial growth in neighbouring countries such as Malaysia and Thailand.

7 World Bank, Philippines at a Glance, May 2000 report. GDP figures are at current market prices and WEFA database
Some authors explain the peculiar situation of the industrial sector by an insufficient competition among economic sectors, some of which are granted high protection. Reduced competition has resulted in a limited capacity to adjust to the shift from inward to outward orientation and to create jobs in added value activities.

As regards the Philippines’ Balance of Payments, in 1998, merchandise exports rose almost 17% while imports declined. As a result, the trade deficit narrowed to 28 million US$ in 1998 from a deficit of 11.1 billion US$ in 1997 and in 1999 reached, for the first time in 26 years, a surplus of about 5% of the GDP.

The strength of the external account is also heavily influenced by remittances of Philippine overseas workers, which is estimated to constitute around 9% of the economy and a continuous dampened import demand.

Investment, one of the pillars of growth of the pre-crisis years in the Philippines further declined during 1999, following the severe contraction in 1998. Efforts to improve the investment climate by lowering interest rates were countered by insufficient confidence of investors.

In relation to potential sources of macroeconomic instability, there are indications that the factors that helped the Philippines recover from the Asian crisis may be reaching their limits and recovery may remain fragile. Particular attention must be paid to the evolution of the following factors:

- **Exports.** Philippines exports have made the dominant contribution to economic recovery. The global slowdown will strongly affect the growth of the Philippines, which, moreover, are highly dependent on one industrial sector (electronics & information technologies representing 60% of the Philippines exports revenues).

- **Fiscal policies.** Philippines government may find it increasingly difficult to pursue expansive fiscal policies as there has been deterioration in 2000 of the fiscal deficit, more than 3% of the GDP, as well as of government debt, becoming more than 70% of the GDP. This position is mainly due to poor government revenues, i.e. low tax collection and privatisation proceeds.

- **Structural reform.** Given the rapid recovery in economic growth, there has been some complacency regarding the pace of structural reform. The rate of non-performing loans of the Philippines banking system, even though not excessive, has increased from 10.4% in 1998 to 14.6% in 2000. While some progress has been made to reform the banking system, which needs further restructuring, more progress is even required with the corporate financial restructuring which lags behind the banking sector. Further efforts are needed to align the Philippines with worldwide best practices in anti-money laundering.

- **Foreign Direct Investment.** It should be noted that the Philippines has one of the lowest domestic savings rate in the region, leaving the country and its citizens, particularly exposed to economic turbulence and dependent on FDI to sustain fast investment growth. Net foreign direct investment though has been decelerating from 1.338 million dollars in 1996 to 490 million in 1999. This trend underlines the erosion of investors confidence and the need to speed up economic reform, improve governance and the urgency to achieve political stability, particularly in the south of the Philippines.

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8 World Bank: Philippines, growth and equity: the remaining agenda, May 2000
10 Domestic savings rates in 1998, as % of GDP: Philippines 15; Indonesia 24; Thailand 42; Malaysia 48
3.2.2 Social developments

Here below, are some key elements (supplementary description of social developments are included in annex 2):

- There are about 24 million Filipinos living below the national poverty line. The proportion of the population living below the national poverty line has declined since 1961 (59%) but slowly and unevenly. The country's performance in poverty reduction has fallen short of the accomplishments of its south-east Asian neighbours, where poverty has declined by at least 1% per annum over the last three decades, compared with 0.7% for the Philippines.

- Income distribution in the Philippines is less equal than in most developing countries in Asia. The richest 20% of the population has incomes about 10.7 times those of the poorest, compared to 4.7 times in Indonesia, an ASEAN country of similar per capita income at purchasing power parity.

- Three deciles of the lower income population do not save; therefore, they have no cushion in times of hardship and when better times arrive, they cannot access credit to make investments. This highlights the need for a system of social safety nets at national level.

- Poverty remains a predominantly rural problem, accounting for nearly two-thirds of the poor in the country. About half (53%) of the Philippines population lives in the rural areas, while agricultural land is owned by 18% of the population.

- The ten year Comprehensive Agrarian Reform Programme, launched in 1987 sought to address land ownership inequity, but by the end of 1998 it had transferred only 60% of the targeted 7.8 million hectares for distribution. In addition, the land transfer process has reached a new difficulty: the distribution of private agricultural lands.

- The Philippines is relatively better in public education than many other Asian countries because of the size of enrolment and its accessibility to all strata of the population. Nevertheless, the quality of basic education remains of general concern and it may become an increasing problem.

- Access to social services, particularly primary health care, is still a problem in many areas in the country. While under-five mortality has declined slightly in recent years, infant mortality rates remain unchanged since 1998 at about 35 deaths per 1000 births. Only 56% of these births are attended by skilled health personnel.

- Overseas migration is largely used by Filipino workers to improve their living conditions and those of their families. It is estimated that roughly 5.6 million Filipinos work overseas (vs. about 45 million people of working age). The global impact of remittances of these workers on the Philippine economy cannot be underestimated.

- Tens of thousands of migrant Filipino women fall victim to unscrupulous recruiters and trafficking syndicates, placing them in modern-day slavery.

- The largest part of the poorest provinces in the Philippines, with the lowest literacy rate and life expectancy, are located in the Mindanao region, ravaged by intermittent outbursts of violence fuelled by Islamic separatist and communist movements since the early 1970s.

3.2.3 The reform process

See annex 1, for Philippine development indicators
On the international front, the Philippines remains committed to regional integration and is a decided defender of open trade. On the internal front, the recent pace of reform has slowed down. Further liberalisation of the economy is needed to enhance integration to world trade and to remove rigidities that prevent sustained economic growth.

Furthermore, corporate ownership concentration, not uncommon in Asia, has in the Philippines - with Indonesia - the highest degree of concentration. Such concentration around family groups is a source of concern as it may become a constraint for economic growth, given the possibility of abuse of dominant position and excessive lending risks when the groups are linked to financial institutions. In this regard, improved corporate governance is also needed so as to ensure better protection of minority shareholders and creditors.

Unless both the institutional and policy gaps recently made prominent by the Asian financial crisis and the long-acknowledged structural weaknesses of the economy (e.g. low savings rate, high export concentration, high degree of market concentration in several industries, labour market rigidity, low productivity, low tax effort, inadequate infrastructure) are addressed, the economy will remain vulnerable to internal and external shocks in the future.

3.2.4 Public finance and sectoral policies

The fiscal deficit of 3.6% of GNP in 1999 was higher than the targeted 0.6% and government revenue losses were 15.1% of GNP. The cost of the military campaign in Mindanao has added further constraints on government expenditure. In order to reduce pressure on inflation (about 6%), the government needs to renew its efforts to raise the level of revenues through improved tax collection and privatisation proceeds.

The Philippines has been active in the mobilisation of the private sector for providing public goods. More can be done to encourage further the private sector, particularly by improving the operational environment where rules are clearer and more stable and by enhancing competition.

Current sectoral policy in favour of agriculture and related processing industries is a reversal of the previous policy. The World Trade Organisation trade policy review of the Philippines, made in 1999, underlined that even though legal provisions had been introduced to enhance food production and lower prices, the domestic price of some agricultural commodities exceeded world prices by a wide margin.

In this regard, it should be noted that the share of food in consumption for the first (poorest) decile represents 68% of total consumption expenditures, while for the tenth (richest) decile it represents only 28.6%, such policies harming in particular, the poorest families.

The Oil industry has been liberalised and a policy of privatisation and facilitation of private participation in power generation put in place; however, the high costs of electricity remains an issue. Government efforts to switch electricity generation from imported oil to natural gas should continue so as to reduce vulnerability to sudden spikes in world oil prices.

The Philippines manufacturing sector is becoming increasingly diversified. The motor vehicle industry has grown strongly, becoming an export activity. However, different protective measures, such as those included in the Car Development Programme have supported domestic producers at the cost of significant distortions in the domestic market, leading to a likely misallocation of resources in the economy.
In addition, tariff increases in textiles and steel appear to run against the suggested drive for greater neutrality.

The service sector has made important progress in reforming and raising competitiveness in financial services, telecommunications and air transport. State involvement in some sectors remains significant, but decreasing. Foreign investment still remains restricted in areas such as transport, telecommunications, banking and business services to industries.

3.2.5 External environment

The last WTO trade policy review of the Philippines in 1999 stressed that a more outward-looking environment, focusing on the neutrality of treatment between domestic and export-oriented production, could ensure higher, sustainable rates of growth.

The EU is the second largest export market of the Philippines and has been instrumental in reducing the impact of the Asian financial crisis on the Philippines economy by absorbing a substantial share of increasing exports. The EU’s balance of trade with the Philippines turned into a 2.9 billion euro deficit in 1998. In contrast, the growth of US imports decelerated in the last years, while Japanese imports remained stagnant.

The Philippines is a founding member of ASEAN, the Association of South-East Asian Nations. The ASEAN members agreed in 1992 to launch the creation of AFTA, the ASEAN Free Trade Area, to ensure the liberalisation of trade within the region.

By the year 2002 when most tariffs are to be removed within the ASEAN, it is very likely that the ASEAN counterparts will absorb an increasing share of Philippine exports, currently representing only 12.2% of its total exports and being its fourth export market.

The Philippines is also a member of APEC, the 21 member economies of the Asia-Pacific Economic Co-operation established in 1989. APEC members committed in 1994 by the Bogor (Indonesia) Declaration of Common Resolve to achieve free and open trade and investment in the region by no later than 2010 for industrialised economies and 2020 for developing economies.

3.3 Sustainability of current policies

The Philippines economy has demonstrated resilience to major external shocks, such as the Asian financial crisis, and to internal political instability. The present analysis though, has identified some weaknesses that prevent full exploitation of its economic potential.

When during the 1970’s yearly economic growth exceeded 5%, poverty reduction in the Philippines reached 2% per year. Crossing the threshold of 5% growth, seems an essential condition to achieve the Philippines MTDP goals. It should be noted that the Philippines has one of the highest rates of population growth (12) in the region.

Not only economic growth should be sufficient to have a significant impact on poverty, but also its elasticity on poverty reduction. To this end, the Philippines economy should pursue liberalisation policies and reinforce competition rules that can assist in freeing the rigidities that constrain the impact of growth throughout economic sectors.

(12) Annual population growths: 2.3% in 1996; 1.9% in 1999; 1.8% in 2000
Also, exports being a driving force behind the quick recovery, particular attention should be paid to reducing their vulnerability, by broadening markets for its high-tech sector and further diversifying export products.

Boosting investment and savings requires further strengthening of corporate and public governance, as well as enhanced political stability so as to recover investors' confidence.

A comprehensive Draft National Anti-Graft and Corruption Framework and Strategy was recently presented to the Donor Community. This Framework is expected to be sanctioned by the government of the Philippines. The Donor Community stressed the importance of full implementation of the initiated judicial reform to improve the overall governance framework. In this regard, particular attention must be paid to ensuring that an effective justice is delivered.

Given the number of Filipinos living below the poverty line, the high levels (above 10%) of unemployment and underemployment (22%), it would be important, that the Philippines government strengthens and expands a basic social protection system to reduce the vulnerability of poor.

The government is giving priority to providing basic infrastructure especially in the rural areas, such as farm-to-market and feeder roads, rural water supply, to alleviate poverty. It intends to continue deregulating, privatising and mobilising the private sector to accelerate the financing, construction and operation of major infrastructure in power, water, transport, and telecommunications. All these sectors are in need of substantial upgrading.

Regarding the role played by women, the Philippines has a strong tradition of gender equality even within rural communities. There is a relatively balanced access of both sexes to primary education and healthcare in general. High levels of female participation are noted in community and political activity. These positive trends should be followed closely to verify the extent of a long-term effect of the 1997 financial crisis on a fall in income and its possible impact on the access to education and health.

The Philippines is a signatory to most existing international agreements on the environment. In accordance to its commitments to the UN, the government of the Philippines submitted its National Strategy for Sustainable Development to the UN Commission in 1996. A key element of this strategy is the National Integrated Protected Areas System.

In support of environmental sustainability, legislation has been passed in areas such as clean water, clean air, forestry code, national solid waste policy, protection and rehabilitation measures. Enforcement of the laws is the main problem though and the Philippines, one of the richest countries in the world in terms of biodiversity, continues to face degradation at an alarming rate in most environmental areas.

### 3.4 Medium term challenges

The seven government priority areas of the Philippines Medium Term strategic agenda have been outlined in point 2. Avenues for co-operation follow below:

- **Rural development.** This priority area is fully commensurate with the EC's own strategic objectives. Acceleration of sustainable rural development is a formidable challenge: the Philippines government needs foreign support given the number of poor people living on agriculture, geographical dispersion and the difficulty of...
access to some remote areas in great need of basic services. Many international donors, particularly the EC and several EU Member States, are involved in supporting rural development in an environmentally sustainable manner.

- **Basic social services.** *Contributing with other major donors to improve social services, health or basic education are areas where the EC could explore the possibilities of promoting an extended bilateral dialogue with the Philippines authorities.* The government’s efforts to reduce poverty through enhanced basic social services, are assisted by major donors, such as the Asian Development Bank, the UN agencies, Japan, U.S., and also some EU Member States. Apart from a few specific projects, the EC has not implemented major programmes in these sectors. The ASEM Trust Fund, where the EU is a key member, could assist in defining new strategies and reforms especially within the education and health sectors.

- **Macroeconomic stability.** *The EC supports the Philippines objective, but can only contribute through punctual collaboration and transfer of know-how. Major non-EU donors like the IMF, ADB, Japan and U.S. are deeply involved in assisting the Philippines government in its macroeconomic objectives. These efforts are also sustained by the ASEM trust fund*

- **Global competitiveness and infrastructure development.** If on the competitiveness front the EC can offer *know-how and technical assistance, on infrastructure, the EC has contributed indirectly, via its rural development projects.* Improvement of Philippine competitiveness, including particularly infrastructure expansion involves major international donors like ADB, Japan and the European Investment Bank. Some EU Members States are also active in these areas.

- **Governance.** The *Commission has increasingly voiced its concerns regarding corruption and good governance in the region and is ready to contribute to the Philippines efforts.* Support to Philippines efforts to enhance governance and combat corruption involves an increasing number of donor agencies, with the WB, UNDP and ADB in the lead.

4. **OVERVIEW OF PAST AND ONGOING EC CO-OPERATION**

4.1 **Overview**

The Philippines yearly average of *Overseas Development Aid* (ODA) inflow from 1992 to 2000 \(^{(14)}\) was US$ 1850 million, representing about 2% of GNP in 1998, which *can be compared to* the US$ 1713 million of *FDI* for the same year. The EC, the European Investment Bank and EU Member States *collectively account for 8.2% of the total* € 16.65 billion of ODA loans and grants extended to the Philippines for the period 1992-2000. This places the *EU as the country's 4th largest ODA contributor*, after Japan (50%), ADB (17%) and WB (16%).

Taking only ODA grants, the *EU was the country's second largest source*, after Japan. Europe contributed a total of € 445 million, or 20% of the € 2.2 billion aggregate amount. By comparison the USA accounted for 19% of this amount.

4.2 **Past and ongoing EC co-operation: lessons learnt**

In the context of an EC-Philippines Senior Official Meeting (SOM) it was agreed that the EC would undertake a *global review of its past and present development co-operation with the Philippines*. The review is taking place in two parts, the first preparatory mission was carried out in 1999 and it was meant to assess in broad terms

\(^{(14)}\) Philippines National Economic Development Authority
the impact and prospects for sustainability of EC-funded projects and to provide a basis for dialogue with the government in the 1999 SOM. The second main mission, launched in 2001, is meant to investigate in greater detail the contributions of the EC’s development programmes to the larger development agenda.

The global review preparatory mission has found that EC-supported projects have had a positive impact on development of the targeted areas. It cited as particular strengths of the EC programmes the assistance to capacity-building for partner Local Government Units, and the empowerment of grassroots-level organisations that are inherent in the participatory, community-based approach espoused by the projects.

Annex 3 describes EC co-operation instruments used to assist the Philippines during the last 25 years. From a broader perspective and until the conclusion of the second main mission of the global review exercise, the following lessons can be mentioned regarding the main co-operation instruments:

- **Financial and technical co-operation projects.** This is the most important development instrument in budgetary terms. See a detailed description of preliminary conclusions in the box, in annex 4.

  As a preliminary conclusion, geographical extension of the local development models promoted and exploring opportunities for co-ordination with other donors, particularly in the area of infrastructure, are priorities to achieve further impact of these type of projects, which have contributed to the development of poverty alleviation models using the participatory approach and building on local capabilities.

- **Environmental co-operation.** Apart from the Palawan forest protection project, most of the EC contribution to address environmental protection concerns has been included in the integrated rural development projects referred to in the above financial and technical co-operation projects. Very limited budgetary availability prevents achieving a significant impact in this particular sector, as well as in forest protection.

  EC horizontal co-operation instruments in the environmental sector, have focused in the Philippines on protecting forests and particularly bio-diversity preservation. Under the latter, the National Integrated Protected Areas Programme has made a significant contribution to developing capabilities in the effective management of some ten Protected Areas covering more than 450,000 hectares. A key element has been to facilitate the social and political process that builds awareness, trust, and capability of all the different stakeholders of a Protected Area.

- **NGO projects.** There is scope for developing a comprehensive strategy that, while leaving room to NGO initiatives, builds synergies with defined priorities for bilateral co-operation. Impact of NGO projects may have been somewhat restricted, and EC visibility remained local rather than national, given that they have been both, thematically and geographically diverse, with little connection to each other or to the EC’s major bilateral projects. These projects have been funded through NGO co-financing and thematic budget lines, such as women’s credit, human rights, tropical forests, drugs, and AIDS, on an ad hoc basis.

- **Human Rights and good governance.** The need for a more substantial and focused human rights approach had been identified, in order to remedy traditional meagre impact and visibility. An example of this focused approach can be the recent funding decision regarding the death penalty, where the Community has supported DNA forensic testing and free legal assistance for death row convicts. The impact of such activities could be wider if they could be jointly supported with other donors.
Good governance has been supported through the entire bilateral and NGO portfolio, which has provided assistance to local democracy and governance. *No specific good governance projects have been funded up to now.*

The preparatory mission of the global review considered the current approach to support local democracy and people empowerment through community-based development projects, as a successful EC contribution. *This trend should continue by paying even more attention to empowerment of Local Government Units and people’s organisations.*

- **Humanitarian assistance.** There is *scope for increased integration* between different EC instruments and more co-ordination among donors and the relevant government agencies so as to *achieve higher impact* in the field of humanitarian assistance.

  Most ECHO operations in recent years have delivered *one-time* humanitarian assistance interventions. However, *some interventions have led to longer term development activities*, such as medium-term rehabilitation projects after ECHO support to victims of armed conflict (in Basilan and Central Mindanao), after an earthquake (in the Cordillera), or rural development inputs.

- **Economic co-operation.** Initially EC economic co-operation consisted of integrated technical assistance programmes for trade promotion ([15](#)). Further to Council Regulation of February 1992, a *new strategy* for economic co-operation was launched to promote two-way trade and investment between equal partners, emphasising mutual interest and business-to-business co-operation. *Two complementary approaches have been followed:* a regional and a bilateral approach (see further information in box, in annex 5).

  Experience with the Philippines participation in the *regional programmes* has shown the need for improved *dissemination of information* about the programmes to potentially interested parties and *mechanisms to provide local advice* on how to apply and seek international partners, so as to *ensure a higher successful participation* of Philippines applicants.

  The new approach to *bilateral economic co-operation*, based on mutual interest and promoting business co-operation, has been more successful than the traditional assistance to industrial sectors. Positive results have been achieved by the Philippines EBIC, the first in Asia, in terms of *added-value services and business networking*. Another successful contribution has been in the *higher-education* (European Studies Programme) and *cultural* fields, where further cooperation is planned. New government priorities in areas such as governance and reform offer further opportunity for bilateral co-operation.

- **Science & Technology co-operation projects.** EU S&T co-operation takes place in a region-to-region context in the spirit of North/South and South/South co-operation. It is not a bilateral programme. The contributions have been successful in supporting applied research with Philippine researchers aimed at tackling challenges to development in areas which have been identified as being of critical importance to sustainable development, regionally and globally.

In relation to the *whole EU-Philippines co-operation*, it is worth noting some key elements of the discussion held in November 1999 by the Asia Pacific working group of the Council (COASI). The discussion aimed at examining the *specific EU image and visibility gap in the Philippines*, and possible remedies.

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([15](#)) EC economic co-operation with the Philippines from 1986-99 amounts to about €59 million, of which €34 million funded bilateral projects and €25 million for regional programmes.
Indeed, the **EU’s relevance as a donor, trade partner and investor** to the Philippines is **not matched by an equivalent conceptualisation** in the Philippines of the EU, its objectives, values, global agenda, institutions and working methods. The **same reflection applies to the EU perception of the Philippines**: if for example, in 1998 the EU accounted for nearly half of all foreign investment in the Philippines, it still ranks far behind its ASEAN neighbours in terms of EU trade and investment.

Proposals from the COASI discussion have been fully taken into account in the drawing up of the present paper. Attention is drawn at this point of the paper on the need to nurture the visibility of the EU in co-operation projects and to target specific ones which raise mutual awareness in fields such as culture, media and education, as well as to facilitate high-level political visits between the EU and the Philippines and strengthen the political dialogue between both partners.

### 4.3 EU Member States’ & other donors’ programmes

**EU programmes.** EC and Member States' assistance has focused on **rural development** including water supply, coastal resources management including fisheries, environmental conservation, health, and support to vulnerable groups including indigenous people and children at risk. **Mindanao** receives particular attention from EU assistance.

**EIB loans** have been used for power (e.g. First Gas Power Corp.), water sector (e.g. Maynilad Water Services Inc.), airports (Davao and Puerto Princesa) and industry (cement). Most recently, the EIB Board of Directors has decided to extend a credit facility to a European semiconductors firm in the Philippines.

A few EU Member States (see ODA indicative figures in tables, in annex 6) have a considerable amount of development programmes in the Philippines, though the general trend may be decreasing.

**German** Development Co-operation with the Philippines emphasises mutually selected priority areas, i.e. Environmental Policy and Natural Resources, Economic Reform, Health and Family Planning and Water Management. **Spain** is funding rural development and cultural co-operation, and **Belgium** is involved particularly in rural development and agrarian reform. **Netherlands**, would focus on the environment in the future, whereas Italy and Germany are planning to support agrarian reform. **Sweden** provides institutional support to selected government departments, not properly reported in tables in annex 6.

Some Member States, particularly **Denmark, Finland, France, Netherlands** and the **United Kingdom** provide development funding mostly through multilateral organisations and NGOs instead of the bilateral channels, not being reflected in tables in annex 6. Denmark participates in water related projects; France funds cultural and scientific co-operation; UK has a bilateral bridge building intervention and Finland plans to provide increasing support to Mindanao.

In order to **improve access to information and co-ordination**, the EC Delegation in Manila established in 1999 an **internet web site with extensive details** on EC projects in the Philippines. Most Member States have included in the web site only a partial information on their co-operation activities with the Philippines.

In addition, **debriefing sessions** for EU Missions by each EU expert mission which visits the Philippines are organised to prepare and evaluate EC assistance projects, as well as EU co-ordination meetings organised by the rotating Presidency and the Delegation on a regular basis.
EC and EU Member States development activities complement each other thematically, even though they are not usually designed in collaboration. One practical co-funding effort in the field of development co-operation was tried between the EC and Germany for the SZOPAD rehabilitation project in Mindanao. The effort could not succeed given the different procedures to be applied by the donors. No other Member States have expressed an interest in co-funding.

NGO projects is an area where co-funding is frequent, as the EC co-financing budget line requires the European proponent NGO to secure a part of funding from other sources than the EC. This often means funding from the government of the European country where the NGO is based. In this regard, strategic co-ordination between the EC and Member States could be enhanced.

**Other donors programmes.** The regular Consultative Group Meetings (CGM) co-organised by the World Bank and the government of the Philippines offer a framework for co-ordination among the international donor community.

Plenary meetings are usually preceded by a series of sectoral and thematic (agrarian reform, local government finance, institutional reform, Mindanao, environment) working groups which facilitate an exchange of views on issues of common interest and co-ordination.

In the CGM of 2000, international donors pledged aid worth €2.47 billion. The main donors were Japan (54%), the Asian Development Bank (19%) and the World Bank (10%). Other non EU major donors were the USA, Australia and Canada. Priority areas identified by some of these donors were:

- **Japan:** Philippines is a priority country for its ODA. Japan provides assistance to strengthen the economic structure; mitigate disparities (poverty alleviation and regional disparities); assist in environmental protection and disaster management; human resources development and institution-building. Loans are provided for infrastructure (roads, airports, irrigation) and training (ex.: Filipino seamen). Grants for study programmes, improvement of medical-care system and educational facilities. An important exchange of experts and trainees takes place under this type of financing, as well as technical assistance.

- **ADB:** In addition to loans, ADB also provides grants. Poverty reduction is used as a criteria for deciding support. Mindanao is a priority. Other areas are good governance, provision of basic social services (education, health, sanitation, housing for the poor). Support to the balance of payments and budgetary needs.

- **World Bank:** It focuses its interventions on anti-corruption, reform of banking sector, agrarian reform, poverty alleviation and social development, infrastructure and micro credit.

- **USA:** Current priority areas are governance (procurement, customs, taxes, competition and judiciary), family planning, Mindanao, environment and energy.

- **Canada:** More than 60% of resources go towards poverty alleviation (social and rural development) in Mindanao. Other areas of intervention are private sector development (assisting remove constraints to SMEs and co-operatives) and good governance.

There are also co-ordination activities outside the scope of the EU, such as the Mindanao donor group organised by CIDA and UNDP, and the Agrarian Reform donor group initiated by UNDP and the Department of Agrarian Reform. These activities aim at harmonising donor inputs and exchanging information on donor activities. However, these donor groups have so far not led to co-funding of joint projects.
5. EUROPEAN COMMUNITY CO-OPERATION STRATEGY 2002-2006

5.1 Principles and objectives for co-operation

Taking into account the EU’s co-operation objectives, the Philippines policy agenda, the country analysis, as well as past and ongoing co-operation experience, the **overarching objective** of EC co-operation will be to **support the sustainable -economic, social and environmental- development of the Philippines**. The main areas of concentration for the co-operation will be assistance to the poorest sectors of society and to facilitate the **integration of the Philippines in the flow of international trade**.

Other **non-focal areas** for co-operation are the support to human development and rights, as well as to stability and security in the Philippines, which constitute a **pre-condition for sustainable development**.

An essential element of EC co-operation is **dialogue**. A strengthened dialogue on political, as well as on sectoral policy matters would be pursued. A privileged channel for dialogue is the **EC-Philippines Senior Officials’ Meeting**. The second SOM, held in Brussels in November 1999, laid down pragmatic orientations for co-operation that takes into account present possibilities and constraints for both partners. The third SOM is scheduled to take place in the Philippines in 2002.

In the second SOM it was noted that Community budgetary constraints mean that, while it may be possible to maintain its value in real terms, there is likely to be a very strong bias in favour of using it for the poorest developing countries, and for poverty reduction in developing countries in Asia.

While recognising the still important poverty alleviation needs, it was concluded that the **Philippines could no longer be considered a priority country for EC development aid in the region**. In this connection, an indicative budgetary allocation of € 63 M of EC technical co-operation, including development and economic, could be foreseen for the period 2002-2006.

In particular, regarding **development co-operation** the following **principles** agreed in the second SOM, will apply:

- **Poverty reduction remains a priority**: EC co-operation will maintain its focus on poverty reduction through development projects in the country's poorest regions (16);
- **Geographical focus to be narrowed down**: In terms of geographical focus, future projects will be limited to a number of selected regions. In this regard, Mindanao will still be a priority, given the less favourable social and economic conditions in the region and the need to consolidate the peace process;
- **Achievements of existing projects should be consolidated**: Particular components where implementation experience has been built up by past projects, could be considered for further consolidation and extension;
- **Sectoral approach to be explored**: In the longer-term a shift to the programme approach could be explored under which government sectoral policies are supported in collaboration with international donors.

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(16) In line with the EC's comparative advantage, support will mainly be orientated towards decentralisation and people-empowerment, through capacity-building at community level and greater ownership by the beneficiaries of project initiatives. Sustainable rural development, environmental protection, gender issues and support for land reform will be common concerns for all projects. Accompanying initiatives to encourage sustainable growth in rural areas, such as commercialisation co-operatives and the creation of innovative micro-enterprises, will be explored. Bearing in mind the size of the rural sector and the many pockets of poverty in the...
Moreover, taking into account the remarkable progress made by the Philippines in some economic sectors, EC co-operation with the Philippines thus needs to increase its focus on economic co-operation and further build on its strengths for mutual benefit.

Boosting trade and investment flows between the two partners should, all being equal, lead to an improvement in the rates of growth. The positive effects should be noted particularly in the Philippines, where competition could be stimulated and the transfer of technology and know-how accelerated. However, increases in growth rates and export figures are not a guarantee for national or regional success. A key aspect is the quality and thus the sustainability of growth, which in the Philippines is linked to the extent of the so-called micro-economic reform in financial institutions, the corporate and public sectors, along with the improvement in good governance.

From the EC's perspective an integral aspect of all Community co-operation will be raising the EU's profile - its concept, values, culture - and visibility in the Philippines of EC co-operation instruments. A special effort should be made to bring together the traditional development and economic co-operation approaches, promoting a more harmonious approach that takes into account developmental constraints, but also the economic opportunities offered by international trade.

5.2 Main Areas of Concentration

5.2.1 Focal point 1: Assistance to the poorest sectors of society.

In the context of a defined co-operation, particular attention shall be paid to provide support to the most vulnerable sectors of society and ensure the sustainable use of natural resources. Also, co-operation with the Philippines to devise an environmental assessment scheme could be explored. Priorities for development co-operation are:

- Consolidation and replication of EC know-how transferred by ongoing rural development projects throughout the Philippines. A specific intervention could be explored to facilitate geographical extension to neighbouring communities of specific components of EC projects ending their implementation in the next few years. For example, six rural projects complete their assistance, between 2000 and 2002. In that context, common components of the EC integrated approach which have succeeded in alleviating poverty locally such as micro-finance; promotion of micro-enterprises, agricultural extension, agrarian reform process, participatory methodologies, institutional building, women's health and environmental protection, could be provided in the framework of one single intervention.

- EC Support to a sectoral programme on basic social services, health or education shall be explored so as to contribute to the alleviation of basic needs of the poorest and increase co-ordination and complementarity with other donors.

- Possible complementary intervention in Mindanao, further developed under point 5.3.2.

The main EC instrument to support development co-operation is the "financial and technical co-operation" budget line described in annex 3, for which the above-mentioned priorities - consolidation, sectoral programme and Mindanao - will apply.

Various other EC horizontal instruments could reinforce the financial and technical instrument to achieve the priorities. Utilisation of horizontal instruments could be
more targeted towards the above priorities and the possibility to link their intervention to an existing development project encouraged. Examples of these horizontal instruments may be the EC environment and forest protection which may contribute to the sustainability of rural activities undertaken under other projects or the EC co-financing facility for NGOs (see annex 7) which could provide support to palliate urban poverty, environmental protection or basic education, among others.

The ASEM Trust Fund which has already contributed under its social sector component to poverty monitoring in the Philippines and to better understanding the impact of the economic crisis on poverty and social reactions, such as the incidence on out-of-school youth. A priority area for this fund could be examining how to strengthen the institutional system so as to protect the poor better during a crisis.

5.2.2 Focal point 2: Assistance to trade and investment

Four priority areas to assist in the integration of the Philippines into the world economy:

- **Trade sector policy formulation.** Trade has been the driving force for rapid recovery during the Asian financial crisis. Exports from the Philippines seem to rely too heavily on one industrial sector (Information Technology) representing both an opportunity, but also a risk. It would seem appropriate to adopt a holistic approach, linking trade policy more effectively with macroeconomic and structural reforms, private sector development and institutional capacity building. The EC could explore the opportunity to assist the Philippines in developing such an integrated trade-sector programme and facilitating the integration into the world economy.

- **Governance and institutional reform.** The Philippines offers many advantages for a potential European investor (skilled and largely English speaking population, democratic society, relatively liberal trade and capital regimes, cultural links to Europe). However, European businesses have been constrained from increasing their trade and investment commitments in the Philippines largely because of what they perceive to be a less than transparent business environment.

It has become evident that reforms are essential if the Philippines is to attract the necessary levels of foreign investment. Institutional reforms are consequently intended to focus on the main challenges facing the Philippines in improving its public sector, its legal and judiciary systems, and implementing liberalisation.

The new Philippine administration has stressed its full commitment to a profound institutional reform agenda, including good governance, as one of its top priorities. The Donor community has been invited to participate in government efforts to promote good governance and fight corruption. The EC should participate in this reform process from a human perspective as well as an investment in the long-term partnership with the Philippines. The specific modality of intervention needs to be further examined.

Two areas to include in the institutional reform are:

- **Competition Policy.** It has been recognised that growth, in general, requires an appropriate policy environment that encourages domestic competition and a market-driven allocation of resources to the most productive areas. The implementation of an effective competition policy demands a proper institutional framework, including a strong administrative organisation to monitor and enforce it.
The Philippines has already received some international advisory assistance for the development of a comprehensive competition policy and the necessary institutional reforms to accompany it. The EC can, however, support the considerable amount of research analysis and dialogue still to be undertaken, as well as the advocacy programme, prior to its implementation.

- **Labour & Social Protection Policies.** The Asia crisis has highlighted the need to link new operational policy issues with broader welfare concerns. Hence, there is now a greater focus on lessons to be drawn from experience gained in Europe. The crisis has shown that economic reforms are necessary but should be complemented by a prudent social policy framework. Reforming social protection and addressing labour market aspects are areas where technical assistance could provide a transfer of knowledge of European systems.

- **Targeted investment.** The Philippines excels in some economic sectors where the EC could itself have gaps to fill. At the same time, these Philippines sectors might need further investment support to exploit their potential fully. There seems to be need for a study on the opportunity for a specific intervention to promote co-operation in a few selected sectors, such as for example marine transport, electronics, IT, or medical services.

- **Business to business contacts.** The insufficient general awareness in the Philippines of the EU is somehow reciprocated with a low image of the Philippines in Europe. In addition to a strengthening of relations at institutional level, there seems to be clear opportunity for a more active promotion of business to business contacts, leading to trade and investment arrangements, for the mutual benefit of the EU and the Philippines.

The main EC instrument for this priority is the "political, economic and cultural co-operation" budget line which finances horizontal and bilateral programmes. Activities aiming to foster mutual understanding and business to business co-operation, are generally supported through horizontal programmes, such as for example Asia-Invest which provides assistance under six different schemes. A particular effort needs to be made to increase the limited participation of the Philippines in this horizontal programme. An analysis of results achieved until now and the necessary means to improve them, at the level of co-operation opportunities and advice to enhance the quality of proposals, should be undertaken jointly by the EC/Philippines.

Activities aiming to support the establishment of a regulatory environment favourable to industrial development and investment can be supported by the same instrument as the bilateral co-operation project.

### 5.3 Other Areas of Co-operation

Outside the areas of concentration and mainly based on available EC horizontal co-operation instruments, the following areas will receive a particular attention in order to complement and reinforce the main areas for co-operation.

**5.3.1 Human development and rights.** Human development (see also point 5.3.3.) has been systematically integrated in EC co-operation in the past. This approach will be continued and reinforced through the consolidation of participatory approaches, people-empowerment and support to social initiatives (services and safety nets).

Three human rights priority sectors are targeted for action:
promoting *good governance and accountability* in public administration, central to a well functioning democratic system;

- preventing and dealing with the *consequences of armed conflict*, including victims of human rights violations, particularly in the Mindanao region and mountainous area of northern Philippines;

- initiatives related to the *death penalty*, aiming at improving the judicial system, law enforcement and supporting legislative reform.

Other areas of concern in the field of human rights are the support and protection of the *rights of vulnerable groups*; enforcement of children rights; promoting participation of all strata of population in the decision-making process in economic and political matters affecting them.

To support these priorities, several *EC instruments* are available, in particular *human rights* budget line of limited resources and world-wide coverage. However, the Philippines is not a "focus country" for this budget line in the 2002-2004 programme. A supplementary instrument may be the *EC co-financing of NGOs* (see annex 7) for whose activities in the Philippines the above-mentioned priorities will apply.

### 5.3.2 Stability and security.

The priority for the EC's contribution to internal security and stability in the Philippines will be the *Mindanao* region, where armed conflict with Islamic and communist rebels, as well as with terrorist gangs exploiting the kidnapping industry, have not only added destruction and suffering to one of the poorest populations in the Philippines, but also hindered investment opportunities that could have helped reduce economic inequalities. Another area to follow up is the *Cordillera* region in the north of the Philippines.

In particular, the possibility to reinforce EU development interventions in *Mindanao* with a *specific contribution to infrastructure*, to upgrade communications, could be explored. Such a contribution could follow an exhaustive analysis of contributions from other main donors and the inclusion of possible EU industrial interests in the conception of the assistance so as to facilitate the *integration of the region into international trade*.

Various *EC instruments* may contribute, according to the specific needs of the population. Particular attention will be paid to ensure complementarity between the various EC financed operations. Possible instruments of intervention are:

- **Humanitarian and food aid to victims of serious crises.** Managed by ECHO, it provides emergency assistance, relief and protection.

- **Aid to uprooted people** promoting the self-sufficiency of internally displaced persons and other population groups which have left their residence because of fighting, lack of security or other man-made crises. It can cover survival, repatriation and resettlement of displaced people and local population in the host region where economic conditions so require.

- **Rehabilitation and reconstruction** operations, so as to initiate the return to a normal life of people in the aftermath of critical situations arising out of armed conflict. It may assist in relaunching production, physical and operational rehabilitation of basic infrastructure, social reintegration of refugees, displaced persons and demobilised troops, restoration of institutional capacities, especially at local level.

- **Assistance to the disarmament** of rebels could be explored as a Council Joint Action under the CFSP instruments to combat the spread of small arms and light weapons.
Development co-operation ("financial and technical co-operation") aiming to support stability by assisting in the laying down of the foundations for long-term development in the conflict affected region.

5.3.3 Co-operation in education, culture and science and technology. Co-operation in these areas can make a significant contribution to strengthening relations between the EU and the Philippines and to their visibility. Priorities are:

- **Higher education.** Promotion of mutual cultural and educational understanding between Europe and the Philippines. The aim is to upgrade the human resources base and to promote a better understanding of European values and thinking in general. A broadly supported initiative in this field is the European Studies scheme, encompassing extended co-operation with Philippines Universities.

- **Cultural and social-economical co-operation.** In view of the promotion of mutual EU-Philippines visibility, via the cultural and socio-economic area, support to think tank activities could be studied. For example, further to the organisation of conferences or workshops, the launching of networking, mobility or the formulation of specific socio-economic policies that take properly into account the respective cultural background.

- **EC Science & Technology programme.** A specific intervention could be examined to enhance in the Philippines awareness of the EC Research and Development Framework Programme and the diffusion of information on the conditions for participation in such a programme aiming to foster the exchange of knowledge and ideas which can contribute to sustainable development and economic growth.

The main EC instrument to support these priorities is the "political, economic and cultural co-operation" budget line. Horizontal programmes such as Asia-Urbs can also assist in different areas of co-operation (training, culture, science & technology), as well as ASEAN University Network or Asia-Link, all financed by the same budget line.

5.4 Coherence

The EC-Philippines co-operation objective, five areas of intervention (human development and rights; stability and security; poorest sectors and rural areas; trade and investment; education, culture and, science and technology) and the priorities identified are consistent with EU policies.

Particular attention has been paid to coherence with the European Community's Development Policy (17) and its Programme of Action. The EC-Philippines areas identified for intervention are among the strategic activities proposed in the development policy paper, having been adapted to the specific Philippines context.

Priorities proposed take into account trade and agricultural related aspects, human rights policy and conflict prevention orientations. Main focus is given to poverty alleviation in rural areas and support to Mindanao, in particular. Support to rural development aims to create job opportunities and provide an enhanced natural and social environment that encourages people to stay, reducing migratory pressure on overpopulated cities. Furthermore, Mindanao receives particular attention as it consists of areas among the poorest in the Philippines and also, as a contribution to peace and stability efforts in the region.

Emphasis is placed on co-operation related to institutional and capacity building, good governance and an enhanced legal and juridical system, facilitating the Philippines

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(17) COM (2000) 212 final of 26.04.00
alignment with WTO agreements and an improved market access to trade and investment. At this stage, no particular conflict is foreseen with EU sensitive agricultural products. The Philippines has suggested negotiations with the EU in 2000 of some textiles quotas and the issue is currently being discussed.

5.5 Complementarity within the EU

EC and EU Member States contribute in supporting the Philippines government policy priorities, coinciding in particular on poverty alleviation (agrarian reform, rural development, health, education, water supply), protection of natural resources and more broadly, in the support to the Mindanao peace process.

Co-ordination takes place in most of these thematic sectors, at various levels. Given the variety of activities (technical assistance, infrastructure, sectoral programmes) supported and instruments (loans, grants) utilised by the different donors and the enormous country needs, no overlapping between EC and EU Member States assistance has been identified.

Nevertheless, taking into account the donors' decreasing trend, a strengthened co-ordination should be encouraged so as to facilitate a critical mass among EU donors, higher visibility and support to a substantial policy dialogue with the Philippines partners. For example, environment and forest protection, where countries such as Germany and Netherlands are particularly active, could be areas to be explored for this enhanced co-ordination.

5.5 Complementarity with other donors

Major donors are co-ordinated periodically in the context of the Consultative Group Meeting co-organised by the government of the Philippines and the WB, as well as in the context of ad-hoc thematic groups. The proposed EC strategy is in line with initiatives undertaken by the other major donors.

Co-ordination with Japan, the largest donor to the Philippines, takes place in the framework of the above-mentioned consultative and ad-hoc group meetings and, particularly, takes place within programmes aimed at poverty reduction and the promotion of economic reform.

The WB, as a result of the Asian financial crisis, is intensifying its assistance in poverty reduction and sustainable economic reform. Good governance is at the forefront of its agenda. The IMF no longer avails its funding to the Philippines; nevertheless, it is establishing with the government of the Philippines, a post-programme monitoring focused on tax administration and reform, as well as fiscal target monitoring. The ADB has been adjusting its development agenda for the Philippines towards poverty reduction and good governance.

Co-ordination of the EC with these donors is conducted by the UNDP and an enhanced bilateral co-ordination is taking place between the EC and, particularly, the WB and ADB. In addition, results from the ASEM Trusts Fund where the EC, EU Member States and the WB take part, provide further guidance and facilitate complementarity of development efforts among the various donors in the Philippines.
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ANNEXES
## ANNEX 1
### DEVELOPMENT INDICATORS

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>VALUE</th>
<th>YEAR</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic well-being</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inequality: Poorest Fifth’s Share of National Income or Consumption</td>
<td>5.9%</td>
<td>1990-97</td>
<td>World Bank Country Assistance Strategy, 1999-2002, p.68</td>
</tr>
<tr>
<td>Child Malnutrition: Prevalence of Underweight under 5 years old</td>
<td>6.4%</td>
<td>1997</td>
<td>National Economic and Development Authority (NEDA)</td>
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<tr>
<td><strong>Social Development</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Net Enrolment in Primary Education</td>
<td>95.1%</td>
<td>1997-98</td>
<td>World Bank Quarterly Update, March 2000</td>
</tr>
<tr>
<td>Literacy Rate of 10-64 year olds</td>
<td>95.02%</td>
<td>1994</td>
<td>National Statistics Office</td>
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<tr>
<td>Infant Mortality Rate</td>
<td>35 per ‘000 births 18</td>
<td>1997</td>
<td>1998 Demographic and Health Survey, National Statistics Office</td>
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<tr>
<td>Under 5 Mortality Rate</td>
<td>48 per ‘000 births 18 48 per ‘000 births 19</td>
<td>1998-92</td>
<td>1998 Demographic and Health Survey, National Statistics Office</td>
</tr>
<tr>
<td>Maternal Mortality Ratio</td>
<td>200 per 100,000 19</td>
<td>1997</td>
<td>1998 Demographic and Health Survey, National Statistics Office</td>
</tr>
<tr>
<td>Births Attended by Skilled Health Personnel 20</td>
<td>56% 53%</td>
<td>1997 1993</td>
<td>1998 Demographic and Health Survey, National Statistics Office</td>
</tr>
<tr>
<td>Contraceptive Prevalence Rate</td>
<td>49.3%</td>
<td>1999</td>
<td>1999 Family Planning Survey, National Statistics Office</td>
</tr>
</tbody>
</table>

18 This statistic has remain unchanged from 1988-97. See NSO 1997 NDHS Survey.
19 This statistic has remain unchanged from 1988-97. See NSO 1997 NDHS Survey.
20 „Skilled personnel” is defined by NSO as a doctor or trained nurse/midwife.
<table>
<thead>
<tr>
<th>Category</th>
<th>Indicator</th>
<th>Value</th>
<th>Year</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Literacy</td>
<td>Simple literacy ratio, females to males</td>
<td>1.008</td>
<td>1994</td>
<td>National Statistics Office</td>
</tr>
<tr>
<td></td>
<td>Ratio of occupied elected positions, females to males</td>
<td>.18</td>
<td>1997</td>
<td>1998 Demographic and Health Survey, National Statistics Office</td>
</tr>
<tr>
<td>Environmental sustainability and regeneration</td>
<td>Countries with National Sustainable Development Strategies</td>
<td>Yes</td>
<td></td>
<td>Philippines Agenda 21, completed in 1996 and submitted to the UN Commission on Sustainable Development</td>
</tr>
<tr>
<td></td>
<td>Population with Access to Safe Water</td>
<td>73% (actual)</td>
<td>1999</td>
<td>Medium-Term Philippine Development Plan</td>
</tr>
<tr>
<td></td>
<td>Biodiversity: Land Area Protected</td>
<td>13.65%</td>
<td>1999</td>
<td>Department of Environment and Natural Resources</td>
</tr>
<tr>
<td></td>
<td>Carbon Dioxide Emissions</td>
<td>0.7 metric tons/capita</td>
<td>1990</td>
<td>2000 World Development Indicators, World Bank</td>
</tr>
<tr>
<td></td>
<td>Forest Area as % of Land Area</td>
<td>18.63%</td>
<td>1996</td>
<td>Department of Environment and Natural Resources</td>
</tr>
<tr>
<td></td>
<td>Mangrove Areas</td>
<td>1.15%</td>
<td>1991</td>
<td>1999 Philippine Statistical Yearbook, NSCB</td>
</tr>
<tr>
<td>General Indicators</td>
<td>GNP per Capita</td>
<td>US$1020</td>
<td>1999</td>
<td>2000 World Development Indicators, World Bank</td>
</tr>
<tr>
<td></td>
<td>Adult Simple Literacy Rate</td>
<td>93.9%</td>
<td></td>
<td>1994 Functional Literacy, Education and Mass Media Survey, National Statistics Office</td>
</tr>
<tr>
<td></td>
<td>Total Fertility Rate</td>
<td>3.7%</td>
<td>1999</td>
<td>1999 Family Planning Survey, National Statistics Office</td>
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<tr>
<td></td>
<td>Life Expectancy at Birth (years)</td>
<td>68</td>
<td>1998</td>
<td>2000 World Development Indicators, World Bank</td>
</tr>
</tbody>
</table>

21 “Simple literacy” is defined by the Philippine Government as the ability to read and write in any language.
<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>Value</th>
<th>Year</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Debt as % of GNP</td>
<td>70%</td>
<td>1998</td>
<td>ADB, December 1999</td>
</tr>
<tr>
<td>Investment as % of GDP</td>
<td>20.5%</td>
<td>1998</td>
<td>2000 World Development Indicators, World Bank</td>
</tr>
<tr>
<td>Trade as % share of GDP</td>
<td>99.64%</td>
<td>1998</td>
<td>National Statistical Co-ordination Board, National Accounts of the Philippines, November 1999</td>
</tr>
</tbody>
</table>
ANNEX 2

SOCIAL DEVELOPMENTS

Supplementary information:

If the one dollar-a-day poverty line is taken as a reference, the latest available figure is for year 1994, where 27% of the Philippine population was living below this line (25).

Unemployment has remained high at above 10% and underemployment, at 22%, has been substantial. During the second quarter of 2000 unemployment has reached a peak of 13%, the highest level in nine years, marking the slowdown in the agricultural sector and security problems in the south of the Philippines.

Overseas migration is largely used by Filipino workers to improve their living conditions and those of their families. As of May 1999, there were 1053 recruitment agencies for overseas employment of which, 705 were for land-based employment and 348 for sea-based.

The 1999 UNDP Human Development Report provides the latest available human poverty figures for the Philippines, indicating that 28% of pre-school children are underweight (vs. 14% in 1990), 25% of the population has no access to sanitation and 16% no access to safe water.

Existing conditions in the poor communities are not conducive to economic growth and many lack basic services like water, sanitation, electricity, communication and transportation. As many as 10,000 barangays (small communities) have no electricity, the majority of them situated in the uplands, isolated coasts and small islands.

On land transfer process two approaches are followed by the Department of Agrarian Reform, first to adopt more effective transfer mechanisms for contentious landholdings and second, to closer integrate the various government agencies involved in rural development. For the former, the government has prepared specific initiatives like for sugar and coconut lands; for the latter, it promotes the approach of Agrarian Reform Communities, which the EC has been the first foreign donor to support.

The largest part of the poorest provinces in the Philippines, with the lowest literacy rate and life expectancy, are located in the Mindanao region. Since the early 1970s the Mindanao region is ravaged by intermittent outbursts of violence fuelled by Islamic separatist and communist movements. There is an estimated number of 300,000 internally displaced people as result of the military escalation during the year 2000 to clear the MILF camps and those of the Abu Sayyaf group. Many of these internal refugees are reluctant to return to their homes located in the zones where the rebel camps concentrated, as guerrilla warfare continues in the region.

---

22 This figure may be compared at a similar time with the 8% for Indonesia in 1996 or less than 2% in Thailand in 1994.
ANNEX 3

EC-Philippines co-operation instruments used during the last 25 years
• **Financial and technical co-operation (B7-3000).** Support under this instrument has amounted to € 289 million of grant assistance through both government and non-government channels. It has been mostly utilised to support rural development and agrarian reform, health, environment and tropical forest protection. The major governmental partners have been the Departments of Agriculture, Agrarian Reform, Health and Environment and Natural Resources. The projects currently are spread throughout the whole country.

• **Environment (B7-6200) and tropical forests (B7-6201).** Out of four projects for an amount of € 13.5 million, one has made a contribution of € 11 million to the National Integrated Protected Areas Programme.

• **Internally displaced people (B7-3020).** Several small projects for an amount of € 3.4 million have been recently adopted to assist communities receiving displaced people by armed conflict to recover, as well as to facilitate the return of the displaced people to their communities of origin in Central Mindanao.

• **Rehabilitation (B7-6410).** Assistance for an amount of € 2.8 million to areas torn by armed conflict in the SZOPAD area and Basilan to facilitate economic and social rehabilitation.

• **Human rights (B7-7020 and B7-707).** Several small human rights projects have funded two main areas: support of human rights education and voter education, and recently, legal aspects of death penalty.

• **Women’s credit (B7-6110), AIDS (B7-6211), Drugs (B7-6210) are examples of other instruments that have been utilised for small interventions in various areas.**

• **ECHO (B7-2190, B7-2170, B7-2100).** As the Philippines is considered as one of the most disaster prone countries in the world, EC Humanitarian Office has provided € 16.8 million humanitarian assistance to victims of numerous natural and man-made disasters, such as typhoons, floods, drought, as well as victims of the various armed conflicts.

• **NGO co-financing (B7-6000).** Non Governmental Organisations co-financing activities has made a significant co-financial contribution of € 41 million, covering a wide range of activities from rural development and health interventions to street children and support to indigenous people.

• **Economic and industrial co-operation (B7-3010, B7-8700, B7-8720).** This particular type of co-operation has been channelled through regional approaches and bilateral ones, mainly from the economic, politic and cultural co-operation budget line.

• **S&T co-operation (B6-6224, B6-7211, B6-6211).** To date, a total of 40 joint research projects as well as scientific workshops involving European and Philippine scientists have been funded in areas of natural resources, agriculture and health under programmes for international co-operation (INCO). Over the past 5 years Philippines partners have participated in 18 projects launched under the INCO programme, with an EC contribution of € 12 million.
Preliminary conclusions on the implementation of
EC Financial and technical co-operation

Global objectives  Alleviating poverty in the less developed parts of the Philippines’ archipelago. Other sectoral objectives have been environmental protection and basic health services.

Approaches Two main approaches have been adopted: a) improvement of living conditions of the poorest and self-reliance; b) facilitating economic development in the areas concerned, indirectly improving living conditions.

The first approach has been generally followed. In addition to immediate actions to improve living conditions, long-term processes have been launched to enhance beneficiaries capabilities to identify, implement and sustain their own development (23).

The second approach has recently appeared with the WESAMAR project, where the creation of small and medium size firms have been actively promoted, supporting if necessary non-local firms committed to utilise local resources. This approach deserves further attention as it facilitates transition from a purely rural developmental approach towards another one, which brings in more entrepreneurial type of skills to the assisted area, further exploiting the available opportunities of endogenous development. (24)

Outcome

• EC rural development projects have proved to be successful in promoting endogenous processes, setting up the basis for sustainable development. Projects have focused on:
  - empowerment of grassroots-level organisations;
  - facilitating access of the poor to local sources of financing (24);
  - improving local capabilities in production and marketing;
  - upgrading basic infrastructures, both for production and market access.

• Some rehabilitation and development projects have contributed to the pacification process of past-conflict zones, like Cordilleras and Mindanao.

• The long-term approach, investing in human development, jointly with the projects’ limited resources (in terms of time and funding), has implied:
  - a slower rate of progress in the short-term than what could have been achieved by supporting larger infrastructures in agriculture, roads or energy (26);
  - particular implementation delays and moderate results during project life in post-conflict zones, due to complex social, political and economic context;

23 Projects have therefore provided assistance to access potable water and sanitation, small roads, income-generating activities involving production and marketing, support to co-operative and other community based organisations, the establishment of viable rural micro-finance systems and the strengthening of local institutions.

24 In both type of approaches, projects’ main contribution has been in the design and testing of rural development models and experiences that may be replicated by the local communities. This is explicitly recognised in the UDP.
- further examination of exit strategies for rural finance systems, so as to fully take into account existing regulatory constraints applicable to the facilitation of local financing;

- mitigated impact in terms of ensuring the facilitation of income generating activities, as beneficiaries' income improvement is often curtailed by poor physical access to markets;

- some conflicting situations when applying the participatory approach to infrastructures (in particular, roads), which require definition of clear criteria from start of the project.

Impact

• Impact at national level is limited. Poverty alleviation impact in terms of number of families benefiting from these projects range in average from 10,000 to 20,000 per project. Given the limited resources available and complexity of the projects (i.e.: the social context, the physical difficulties of access, the specific participatory approach adopted), projects have targeted pragmatic outcomes at local level, to be replicated.

• Long term impact will depend on the extent to which replication of successful models to similar neighbouring areas can take place. Sustainability of the approach adopted will depend on the degree that these models are institutionalised and internalised by local partners and proper exit strategies implemented.

Most projects have a micro-finance component assisting local population, particularly the poorest, to develop savings schemes and financial mechanisms to facilitate access to existing financial structures.

Indeed, most projects have promoted the organisational and management capacity building of beneficiaries by way of assisting in the development of community organisations, co-operatives, or support to local services and NGOs.

For infrastructure works which require high standards of quality and durability, like the construction or rehabilitation of roads in mountainous regions, the participatory approach is better suited for the identification and design phases of the work, while implementation should be contracted to professional firms, rather than made by indigenous workforce.
ANNEX 5
ECONOMIC CO-OPERATION PROJECTS
Further lessons learnt

<table>
<thead>
<tr>
<th>Two approaches:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- <strong>A regional approach.</strong> <em>Improvements may be needed in the dissemination of information</em> about the programmes to potentially interested Philippines parties and <em>mechanisms to provide local advice</em> on how to apply and look for international partners, so as to <em>ensure a higher successful</em> participation of Philippines applicants in the regional programmes.</td>
</tr>
<tr>
<td>The approach gives high priority to the promotion of economic and sectoral activities on a region-to-region basis. The Philippines has participated in EC-ASEAN regional programmes, covering energy, environment, transport, education and communication technology. In addition, the Philippines is associated with EC-Asia horizontal co-operation programmes such as Asia-URBS, Asia-Invest and JEM, the training programme for Junior Managers.</td>
</tr>
<tr>
<td>- <strong>A bilateral approach.</strong> Through bilateral co-operation the <em>first Asia-based European Business Information Centre</em> was established in Manila. Experience since its start in 1992, has been positive in terms of value-added services provided and network of customers, as well as it has performed well in terms of income generation. EC support to the EBIC ended in year 2000.</td>
</tr>
<tr>
<td>Several projects have been supported in the past aiming to promote EU-Philippines co-operation in specific <em>industrial sectors with a limited impact</em>. This type of co-operation is nowadays channelled through the regional programmes, without excluding the possibility to support bilaterally cross-investment in selected economic sectors of mutual interest.</td>
</tr>
<tr>
<td>The new bilateral economic co-operation aims rather to facilitate <em>an enhanced environment</em> for business co-operation, and <em>increased trade and investment</em>. After the Asian financial crisis, new challenges of different dimensions have become apparent for an intensified promotion of business. More <em>transparency and a clear legal framework</em> in all economic areas are essential to <em>restoring investor confidence</em>. Therefore, the key to success will be to pursue the economic, financial and political reforms recognised as necessary.</td>
</tr>
</tbody>
</table>
### BY SOURCE, 1992-1999 (in US$million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UN SYSTEM</td>
<td>9.45</td>
<td>19.12</td>
</tr>
<tr>
<td>ADB</td>
<td>363.48</td>
<td>306.08</td>
</tr>
<tr>
<td>IBRD/WB</td>
<td>424.65</td>
<td>222.10</td>
</tr>
<tr>
<td>IFAD</td>
<td>0.00</td>
<td>6.15</td>
</tr>
<tr>
<td>EU/EC</td>
<td>48.31</td>
<td>19.76</td>
</tr>
<tr>
<td>EIB</td>
<td>8.22</td>
<td>0.00</td>
</tr>
<tr>
<td>AUSTRALIA</td>
<td>22.60</td>
<td>65.58</td>
</tr>
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<td>AUSTRIA</td>
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<td>9.35</td>
</tr>
<tr>
<td>BELGIUM</td>
<td>1.29</td>
<td>6.57</td>
</tr>
<tr>
<td>BRUNEI</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>CANADA</td>
<td>9.58</td>
<td>23.86</td>
</tr>
<tr>
<td>DENMARK</td>
<td>2.30</td>
<td>7.10</td>
</tr>
<tr>
<td>FINLAND</td>
<td>0.00</td>
<td>1.08</td>
</tr>
<tr>
<td>FRANCE</td>
<td>41.89</td>
<td>30.25</td>
</tr>
<tr>
<td>FRG</td>
<td>44.78</td>
<td>17.92</td>
</tr>
<tr>
<td>ITALY</td>
<td>2.89</td>
<td>0.00</td>
</tr>
<tr>
<td>JAPAN</td>
<td>825.59</td>
<td>1,077.22</td>
</tr>
<tr>
<td>KUWAIT</td>
<td>0.00</td>
<td>8.30</td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>1.02</td>
<td>0.43</td>
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<tr>
<td>NEW ZEALAND</td>
<td>0.41</td>
<td>0.68</td>
</tr>
<tr>
<td>NORWAY</td>
<td>0.00</td>
<td>0.33</td>
</tr>
<tr>
<td>OPEC</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>SINGAPORE</td>
<td>0.54</td>
<td>0.00</td>
</tr>
<tr>
<td>SOUTH KOREA</td>
<td>0.43</td>
<td>6.75</td>
</tr>
<tr>
<td>SPAIN</td>
<td>11.57</td>
<td>42.62</td>
</tr>
<tr>
<td>SWEDEN</td>
<td>0.15</td>
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</tr>
<tr>
<td>SWITZERLAND</td>
<td>1.79</td>
<td>0.00</td>
</tr>
<tr>
<td>UK</td>
<td>29.4</td>
<td>21.04</td>
</tr>
<tr>
<td>USA</td>
<td>100.47</td>
<td>25.96</td>
</tr>
</tbody>
</table>

Source: Philippines NEDA

Note: Direct contributions to government departments, or via NGOs, or multilateral organisations are not properly reflected in the above table
### ANNEX 6.2

**INDICATIVE TOTAL ODA COMMITTED TO THE PHILIPPINES BY SECTOR, 1992-1999 (in US$ million)**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>1992-1999</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AGRI-INDUSTRIAL DEVELOPMENT</strong></td>
<td></td>
<td>3,444</td>
<td>22.5%</td>
</tr>
<tr>
<td>Agriculture</td>
<td></td>
<td>1,424</td>
<td>41.4%</td>
</tr>
<tr>
<td>Agrarian Reform</td>
<td></td>
<td>242</td>
<td>7.0%</td>
</tr>
<tr>
<td>Cooperative</td>
<td></td>
<td>0.56</td>
<td>0.0%</td>
</tr>
<tr>
<td>Environment and Natural Resources</td>
<td></td>
<td>1,119</td>
<td>32.5%</td>
</tr>
<tr>
<td>Industry, Trade and Industry</td>
<td></td>
<td>630</td>
<td>18.3%</td>
</tr>
<tr>
<td>Science and Technology</td>
<td></td>
<td>27.6</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>HUMAN DEVELOPMENT/ SOCIAL SERVICES</strong></td>
<td></td>
<td>1,883</td>
<td>12.3%</td>
</tr>
<tr>
<td>Education and Manpower Development</td>
<td></td>
<td>600</td>
<td>31.9%</td>
</tr>
<tr>
<td>Housing</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Health, Nutrition and Family Planning</td>
<td></td>
<td>213</td>
<td>11.3%</td>
</tr>
<tr>
<td>Social Welfare and Community Development</td>
<td></td>
<td>20.5</td>
<td>1.1%</td>
</tr>
<tr>
<td><strong>INFRASTRUCTURE SUPPORT</strong></td>
<td></td>
<td>8,767</td>
<td>57.3%</td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td>4,034</td>
<td>46.0%</td>
</tr>
<tr>
<td>Water Resources</td>
<td></td>
<td>1,671</td>
<td>19.1%</td>
</tr>
<tr>
<td>Energy, Power and Electrification</td>
<td></td>
<td>2,725</td>
<td>31.1%</td>
</tr>
<tr>
<td>Communications</td>
<td></td>
<td>335</td>
<td>3.8%</td>
</tr>
<tr>
<td>Social Infra</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>DEVELOPMENT ADMINISTRATION</strong></td>
<td></td>
<td>582</td>
<td>3.8%</td>
</tr>
<tr>
<td><strong>DISASTER MITIGATION</strong></td>
<td></td>
<td>256</td>
<td>1.7%</td>
</tr>
<tr>
<td><strong>INTEGRATED AREA DEVELOPMENT</strong></td>
<td></td>
<td>362</td>
<td>2.4%</td>
</tr>
<tr>
<td>OTHERS</td>
<td></td>
<td>1.2</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>15,297</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

*SOURCE: NEDA-Public Investment Staff*
ANNEX 7
INDICATIVE PRIORITIES FOR NGO ACTIVITIES

Non-exhaustive list of some priorities for NGOs:

Themes:
- Support to basic education, non formal education and training;
- Protection of vulnerable groups such as children, indigenous people and women;
- Support to environment protection;
- Support to preventive and primary health care
- Support to initiatives for prevention and resolution of conflicts;
- Support to income generating activities, including micro-finance

Geographical focus:
- Support to poor in urban conglomerations;
- Support to actions complementing EC-bilateral projects (information available at http://www.delphl.cec.eu.int)
# NATIONAL INDICATIVE PROGRAMME

## PHILIPPINES

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Philippines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Years</td>
<td>2002 – 2004</td>
</tr>
<tr>
<td>Budget Line</td>
<td>B7-300, B7-301</td>
</tr>
<tr>
<td>Legal Base</td>
<td>ALA Regulation (Council Regulation 443/92 of 25/02/92)</td>
</tr>
<tr>
<td>Cost of Order</td>
<td>€ 51 M</td>
</tr>
<tr>
<td>Programming Service</td>
<td>DG RELEX H/5</td>
</tr>
<tr>
<td>Acting Head of Unit</td>
<td>W. Mc Colgan</td>
</tr>
<tr>
<td>Co-Ordinator</td>
<td>D. Dal Molin</td>
</tr>
</tbody>
</table>
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      5.3.2 **Expected Results** 55
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      5.3.4 **Risks and Conditionalities** 56
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6. CROSS CUTTING THEME: GOOD GOVERNANCE

6.1 STRATEGIC CONTEXT /JUSTIFICATION

6.1.2 KEY AREAS OF INTERVENTION

6.2 ACTION: IMPROVEMENT OF THE GOVERNANCE FRAMEWORK IN THE PHILIPPINES: A GOOD GOVERNANCE PROGRAMME

6.2.1 OBJECTIVES

6.2.2 EXPECTED RESULTS

6.2.3 ACTIVITIES

6.2.4 IMPLEMENTATION

6.2.5 RISKS AND CONDITIONALITIES

6.2.6 PERFORMANCE / OUTCOME INDICATORS

6.2.7 FINANCIAL ENVELOPE

ANNEX A FOCAL POINT 1. ACTION 1: CONSOLIDATION AND EXPANSION OF THE PHILIPPINES EC RURAL DEVELOPMENT PROGRAMME (CEPERD)

ANNEX B WHAT OTHER DONORS ARE DOING IN IMPROVING GOVERNANCE

ANNEX C KEY AREAS OF INTERVENTION IN THE GOOD GOVERNANCE PROGRAMME
1. **EC-Philippines Country Strategy Paper**

The EC-Philippines Country Strategy Paper takes into account the goals of EU's co-operation, the Philippines policy agenda, the country analysis, as well as past and ongoing co-operation experience. The CSP states that the **overarching objective** of EC co-operation will be to **support the sustainable -economic, social and environmental- development of the Philippines**. The main areas of concentration for the co-operation will be assistance to the poorest sectors of society and to facilitate the integration of the Philippines in the flow of international trade.

Other non-focal areas for co-operation are the support to human development and rights, to stability and security in the Philippines, and in the fields of education and culture.

Moreover, coherence of EU policies and complementarity within the EU and with other donors will be pursued in all areas of the co-operation.

2. **Summary of the Strategy and Priorities**

**Focal point 1**: Assistance to the poorest sectors of society, comprises the consolidation and replication of rural development know-how and EC support to a sector - health - programme;

**Focal point 2**: Assistance to trade and investment, in view to facilitate the integration of the Philippines in the world trade flows, comprises trade sector policy formulation and institutional reform; and higher-education co-operation in European studies.

Specific co-operation in good governance, a cross-cutting theme, is proposed in support of both, focal point 1 and 2.

From the EC's perspective an integral aspect of all Community co-operation will be **raising the EU's profile - its concept, values, culture - and visibility in the Philippines of EC co-operation instruments**. A special effort should be made to **bring together the traditional development and economic co-operation approaches, promoting a more harmonious approach** that takes into account developmental constraints, but also the economic opportunities offered by international trade.

3. **Indicative Budget**

During the period covered by the National Indicative Programme, from 2002 to 2004, a total EC grant of € 51 M can be committed to support the total budget of the EU-Philippines co-operation. Follows the breakdown of this aggregated grant amount:

**3.1 Focal point 1: Assistance to the poorest sectors of society**

<table>
<thead>
<tr>
<th>Action 1:</th>
<th>Consolidation of rural development</th>
<th>€20 M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action 2:</td>
<td>Health sector</td>
<td>€22 M</td>
</tr>
</tbody>
</table>
3.2 Focal point 2: Assistance to trade and Investment € 3 M

Action 1: Business climate enhancement - Global economy €2 M
Action 2: European Studies €1 M

3.3 Cross cutting issue: Good Governance € 6 M

Actions aiming to support focal point 1: €4 M
Actions aiming to support focal point 2: €2 M

4. Priority: Assistance to the Poorest Sectors of Society (Focal Point 1)

4.1 Strategy Context/Justification

4.1.1 Context

Based on the Family Income and Expenditures Survey for 2000, the official source of Philippine poverty statistics, poverty incidence in the Philippines increased from 31.8% in 1997 to 34.2% in 2000. Of all families living below the poverty line, 29% live in urban areas while 71% live in the rural areas. Geographically, the regions with the highest poverty incidence in 1997 also had the highest incidence for 2000.

Poverty alleviation remains the overarching goal of the new Government as embodied in the Medium-Term Philippine Development for 2001-2004 (MTPDP). The pursuit of alleviating poverty in the medium-term is consistent with the objective of sustaining growth with equity and stability.

Consistent with the Government’s goal on poverty alleviation, the EC development co-operation shall continue to subscribe to the campaign against poverty. The CSP explicitly identified the pro-poor areas of intervention, such as rural development and basic social services, ensuring a sustainable use of natural resources.

The CSP mentions that support will be oriented to decentralisation and people empowerment, through capacity building at the community level and greater ownership by beneficiaries of project initiatives. Geographical focus will be narrowed down, achievements of existing projects will be consolidated and a sectoral approach will be explored.

4.1.2 Integrated Rural Development. Context and Strategy

Since the beginning of its formal bilateral co-operation with GoP in 1986, the EC has focussed on combating poverty through integrated rural development and natural resources management. EC financed 17 such projects in rural areas with a high incidence of poverty dispersed throughout the country.
The type of intervention is characterised by programmes with a number of different interventions designed to reinforce each other and by a strong involvement of People’s Organisations, Non Government Organisations (NGOs) and Local Government Units (LGUs) as the prime vehicles for reaching the poor.

Most EC funded projects had a positive impact on development in the targeted rural areas. However, the high number of capital intensive components and relatively small number of beneficiaries have made their positive impact to remain localised.

Long term impact will depend on the extent to which successful models and best practices developed by the EC funded projects are replicated in similar neighbouring areas. Sustainability of the approach adopted will depend on the degree that these models are institutionalised and internalised by local partners and proper exit strategies implemented.

It has been also recognised the need of additional post-project support, i.e. consolidation, as a previous step for rendering such successful interventions and best practices susceptible of being adopted (owned) and replicated by the beneficiaries.

It is therefore included in this NIP an action aiming at consolidating and expanding successful interventions and best practices developed in EC-Philippines rural development co-operation by means of the programme outlined in 4.2 below and in Annex A.

4.1.3 Health Sector

In the delivery of basic services, EC’s experience is in the health sector through two supported projects, which are the assistance to NGOs/CBOs under the Philippine HIV/AIDS support programme completed in early 2001 and the still ongoing Partnerships Component under the umbrella programme of Women’s Health and Safe Motherhood Project. The success of the projects lies in the advocacy activities of the HIV/AIDS project and in the community organisation activities of the Partnerships Component, which aim to empower women by articulating women’s health needs. Both health projects catered to the poorest sectors of the society, those living in remote areas and living below the poverty threshold.

While there are already many donor supported health programmes and projects, including the two EC supported health projects, the delivery of basic health services to the poor in particular, still present a challenge to the Government.

Notwithstanding the major improvements in the health sector for the past several years, through internal and external assistance, the health sector in the Philippines remains a serious concern to the Government. Large variations in health status across population groups, income levels and geographic areas persist. There is a discernible geographic inequity, where people living in the rural and isolated

28 Typical components include: Community Development, Institutional Support to LGUs, Agricultural Development, Agricultural Extension, Marketing, Rural Infrastructure, Micro-enterprise and Credit (micro-finance systems), Agrarian reform, Environmental protection and Land-use Planning.
communities receive less and lower quality health services compared to the urban and less remote areas. The inequity exists despite the devolution of basic health services to the local government units.

Recognising the inadequacies in the health sector, the Government developed the Health Sector Reform Agenda, which embodied the areas of reforms that could institute major changes in the way health care is delivered, regulated, and financed.

Within the context of Health Sector Reform Agenda, the EC health sector programme could cover the areas of the health insurance program, capacity building of LGUs for a more effective performance of local health networks, and strengthen health extension programmes. The key goal is to help improve the health status of the populace through greater and more effective coverage of the national health program and at the same time mobilise the LGUs to increase access to health services especially by the poor.

Another possible area of EC involvement in this sector is in the support to population management. The Government recognised the need for a population management program in the face of a rapid population growth rate. Explicitly, the MTPDP 2002 – 2004 contained the considerations underpinning the Government’s population program, which are related to a sound reproductive health for women, men and adolescents; freedom to choose from a menu of family planning services; and, respects for cultural and religious beliefs. To better achieve the goals of its program, the national government will collaborate and strengthen its partnerships with the LGUs and NGOs.

Of importance for the support co-ordination of EC and that of EU member states is the fact that Germany is supporting the Philippine Government in the implementation of the HSRP in the areas of social health insurance, population management, local health systems, reproductive health, and pharmaceuticals.

4.2 Action: Consolidation and Expansion of the Philippines EC Rural Development Programme (CEPERD)

4.2.1 Objectives

The Programme aims to consolidate and expand the achievements of the EC-supported rural development projects, in order to improve their prospects for sustainability and to generate greater impact.

The consolidation aspect of the Programme addresses the need for additional time and resources for certain projects to make sure that sustainability mechanisms are in place and to improve project partners’ capacities to continue with project interventions.

The expansion aims at helping GOP to build upon the experience of EC-supported projects in formulating rural development models that would enable it to implement similar projects in other areas, either on its own or with other donors.

In terms of geographical coverage, and following the CSP orientations, the Programme will focus mainly on Mindanao and the Cordillera Autonomous Region (CAR) in
Luzón. Continued support outside Mindanao and CAR will only be justified to consolidate benefits in areas supported by EC projects.

4.2.2 Expected Results

The Programme is expected to result in the following:

- **Selected activities** undertaken during EC projects *continue in a sustainable* way. The main agents of implementation being People’s Organisations (POs), this aim may be translated into POs being further empowered so that they are able to sustain and expand their operations, are able to continue the profitability of their livelihood activities or enterprises, and are able to access services from government agencies, LGUs, the private sector and NGOs;

- EC-funded projects’ *partners* from GOP, LGUs and NGOs are *more capable* and confident to continue the development interventions initiated and carried out by those projects;

- Successful Rural Development *models/practices* drawn from EC-supported rural development projects, and duly consolidated, are *internalised* (owned) by the GOP, LGUs and rural development stakeholders. This should enable the beneficiaries to replicate those models in similar projects/activities in the same or neighbouring areas, either on their own or with other donors and reducing the pressure on the use of limited natural resources.

4.2.3 Activities

They will be related to both the consolidation of the selected components within the targeted projects and their expansion. An outlining is given in *Annex C*, but actual definition will be undertaken during the formulation of the programme.

4.2.4 Implementation

The implementation of the Programme, which will be defined during the formulation stage, could take account of the following main principles:

- Decentralised management, at least at regional level (Luzon and Mindanao), should be favoured.

- Best use of local human resources must be sought, in particular those that have been developed during the implementation of EC projects.

- Civil society (NGOs, financial institutions,…) should be involved as much as possible.

4.2.5 Risks and Assumptions

The field-level activities will strongly depend on the political will of the concerned LGUs to support Programme activities.
4.2.6 Performance/Outcome Indicators

Performance and outcome indicators will be defined at the formulation stage.

4.2.7 Financial Envelope

€ 20 million EC grant.

4.2.8 Indicative timeframe

The Programme should be implemented over a period of 4 years starting in 2003. The budgetary commitment could take place in 2002.

A more detailed description of the Programme is given in Annex A.

4.3 Action: Health Sector Programme

4.3.1 Objectives

Contribute to the implementation of the government’s Health Sector Reform Agenda (HSRA) by supporting some interventions that are consistent with the poverty alleviation strategies of the CSP and the Government, including sound population management and consequently, a long term positive impact on the environment protection by reducing pressure on the environment.

The following areas of intervention have been identified as potential priorities for a health sector programme: (1) Health financing, (2) local health systems, 3) National Health Programme promotion, (4) hospital reforms, (5) and (6) population management.

4.3.2 Expected results

The health sector programme is expected to result in the following:

- NHIS: An increase in the number of NIHS beneficiaries and an increase in the enrolment of new beneficiaries under the indigents programme.
- Local Health System: a health strategy at the district level, which includes an improved health referral system
- National Health Programme: improvements in the national health promotion and disease prevention interventions at the regional level.
- Hospital Autonomy: hospital financial and managerial autonomy at the provincial and district level and progressive reduction of the subsidy given by DOH to national hospitals from 100% to 30%.
- Population Management: increase in the use of family planning methods, natural and artificial and the practice of birth spacing, reduction in the rate of infant mortality (targets to be determined by the project appraisal mission).
4.3.3 Activities

The initial phase of the programme will consist of extensive policy dialogue with DOH, PhilHealth, the Commission on Population (Popcom), local authorities and local health service agents. Based on this dialogue, the extent of development of the strategies, and the contributions and commitments of each actor could be determined and matched with the necessary financial instruments. Therefore, the programme during its first phase does not consist in capital equipment provision but more on TA study and advice.

The EC is not expected to fund the entire health-reform requirements at the provincial level, but one component, with a concurrent commitment from the Provincial Government and the DOH to finance their part of the strategy.

Possible activities to be considered for the feasibility studies to be undertaken, by each potential programme area, are as follows:

- **Expansion of the health insurance coverage through PhilHealth**
  - Encourage LGUs and DOH to participate in the financing of indigents;
  - Promote coverage of the self-employed to make the provision system more attractive;
  - Increase the salary ceiling for premium calculation;
  - Raise the benefit ceiling for critical items (such as for TB) taking into account the financial viability of the system;
  - Study the possibility of pooling the three health insurance systems, i.e. GSIS, SSS and the indigent insurance systems.
  - Study the possibility to using LGUs as an extension of the National Health Insurance Programme.

- **Local Health Package**
  - Select one province in collaboration with DOH (possibly La Union as the EC has financed the construction of a hospital in Agoo); conduct a diagnostic activity at the province level including an inventory of different health facilities, and determine the level of reform required and the scheme for health cost sharing;
  - Propose the most practical way to conduct national Health Prevention Programme through local health facilities;
  - Support the establishment of an inter-local health zone, and the improvement of the referral system.

- **National Health Programme**:
  - Review the DOH budget related to national-health prevention;
  - Assess the efficiency of this action in terms of disease prevention;
  - Ensure the collaboration of LGUs in the implementation of this programme;
  - Reduce the burden on hospital capacity from preventable diseases.

- **Hospital Autonomy**
  - Support the granting of fiscal autonomy to public hospitals;
  - Conduct capacity-building activities at the hospital level, such as related to the accounting of receipts and expenditure, the procurement system and the auditing
  - Review appropriate hospital fees.
- Improve regional health hospital network system and the networking system.
- Improve access of indigents to public hospitals.

**Population Management**
- Organising and mobilising advocacy teams from LGUs, NGOs, and community based volunteers to disseminate key population management messages
- Provision of both natural and artificial techniques in family planning, commodities (e.g. condoms, pills), and sterilisation services.
- **Develop core messages through media and IEC materials, provide IEC equipment**
- Conduct training on counselling, service delivery, advocacy skills, IEC, and family planning technologies

### 4.3.4 Implementation

The implementation of the Programme will be defined during the formulation stage. During the definition stage the drugs procurement and distribution system could also be explored as it has been identified by the DOH as a priority of its reform of the Health system. Partners in the programme could be DOH, with DILG and Popcom collaborating at the policy level, and concerned LGUs and NGOs at the regional and provincial levels. Under the component National Health Package, the local health board headed by the Provincial Governor could be main partner.

A possible management arrangement to be explored could be the setting up of a PMU within DOH for the national-level actions such as policy dialogue function and for the passing on of lesson learnt to DOH senior management, with satellite offices in the Provinces for local-level actions.

For the population management component, NGOs that are already active in reproductive health, would be tapped as partners for the advocacy and IEC campaigns, and for the delivery of family planning inputs and services.

**Co-ordination and options for co-operation between the EC and EU Members States should be explored. In particular, German co-operation in the health sector in the Philippines covers four (1, 3-5) out of five areas described for EC intervention**

### 4.3.5 Risks and Conditionalities

The health sector programme is based on the quality and success of the extensive policy dialogue with the authorities and the profession, and the commitment of the different partners and their capacity to put up their respective counterpart contributions.

For the planned intervention on population management, the obvious risk is the opposition of the Church to artificial means of birth control.
4.3.6 Performance/Outcome Indicators

Will be defined by the Project Appraisal Mission

4.3.7 Financial Envelope

The proposed EC grant for this programme is €22 million for a period of three years.

4.3.8 Indicative Timetable

Duration: 3 years, starting 2004. The budgetary commitment could take place in 2003.

5. Priority: Assistance to Trade and Investment (Focal Point 2)

5.1 Strategic Context/Justification

The Commission has in the past supported a number of business promotion activities. However, while such activities are necessary to spur EU-Asian business collaboration, they are obviously not sufficient. It has become increasingly clear that at least as important is the creation of a business-friendly environment of law, tax and public-policy that enables well-run businesses to thrive under a transparent and level playing field. This is likewise acknowledged by the Philippines in its revised Medium Term Philippine Development Plan 2001 – 2004.

One of the most important ways by which a business-friendly environment can be provided and sustained is through increased economic openness. A key feature of such openness is a country’s integration into the global trading system. In fact, the CSP identifies the facilitation of the Philippines’ integration in the flow of international trade as a key focus area for co-operation.

This approach is shared by the Member States’ Heads of Mission in Manila who also draw the attention to the importance of “a conducive and transparent business environment that will favour increased business contacts” in the Heads of Mission’s Report on Measures to Enhance EU-Philippine Co-operation.

In view of the above, it is in the mutual interest of the EU and the Philippines to cooperate in actions leading to the creation of a business environment favourable to enhancing EU-Philippines economic relations.
5.2 Action: Business Climate Enhancement -Integration into Global Economy Programme

5.2.1 Objectives

The general objective is to foster a business environment favourable to enhancing EU-Philippines economic relations (i.e., in the areas of trade, investments and finance).

5.2.2 Expected results

The Business Climate Enhancement Programme should result in:

(i) improved implementation by the Philippines of its commitments under the WTO;
(ii) improved capacity and confidence of the Philippines to manage its integration into the global economy; and
(iii) enhanced competition in the domestic economy.

5.2.3 Activities

Activities under the programme would generally fall under two categories: advocacy and capacity building. Examples of activities that may be undertaken under each category are given below. As we are suggesting a flexible approach to implementation (see below) with a possibility to react rapidly as needs arise, envisaged activities can only be indicative. Furthermore, these potential activities would have to be examined further at the programme appraisal stage.

1. Advocacy campaign - Enhancing awareness, understanding and dialogue: Actions may include conduct of training, seminars, conferences, workshops, etc. to promote broad-based awareness, improved understanding, and dialogue among the relevant key players in the country, especially between the business sector and government, on issues pertaining to the three specific objectives. These could be undertaken in co-operation with business groups such as the European Chamber of Commerce of the Philippines (ECCP).  

29 Such an approach could help sustain and enhance the relationship created between the Delegation and the ECCP through many years of co-operation on the recently concluded Business Information and Development Services (BIDS) Programme. Some ideas on how this can be accomplished were outlined in the recommendations of the consultants who carried out the mid-term evaluation of the BIDS II Programme in January 2000.
2. Capacity building – *Strengthening key government institutions involved in trade, investment, and finance*: Actions could include support for skills upgrading through training, seminars, and workshops; and provision of advisory services by European experts; to enhance the ability of key government organisations to design and implement a regulatory and policy environment conducive to business. Particular attention could be provided to those institutions dealing with key issues (e.g., customs procedures, standards, sanitary and phyto-sanitary related issues, intellectual property protection, etc.).

5.2.4. Implementation

The implementation of the Programme will be defined during the formulation stage. A possible management arrangement to be explored consists of the possibility to set up a central programme management office in the Philippines that would be in charge of implementing and monitoring programme activities.

Given the highly dynamic nature of business and the shifting sentiment on the politics and economics of global integration, the needs, issues and priorities to be addressed in terms of both advocacy and capacity building to further the three specific objectives are likely to evolve over the life of the program. In terms of activities, the implementation of the programme should therefore allow for flexibility with a possibility to react rapidly as needs arise. The needs, issues and priorities should be subject to continuous assessment by the PMO. At the same time, the PMO should ensure that interventions allow for the EC to make a positive, high-impact contribution and complement other EC interventions in this area.30

Opportunities for working with other donors known to operate in this field, such as the ADB and WB, should likewise be explored by the programme appraisal mission.

5.2.5. Risks and Conditionalities

The main risks in this field are: (i) opposition from vested interests who would lose rent from the provision of a transparent and level playing field in business; (ii) shifting sentiment of civil society, business, government and even the academe as regards greater global integration in general and the multilateral trading system (as embodied by the WTO) in particular; and (iii) the highly dynamic nature of business and its evolving needs and priorities.

To counteract the first and second risks, the advocacy campaign should give emphasis to consolidating the voice of various stakeholders in favour of a more open economy and highlight its benefits. At the same time, ideas on how the downside risks can be better managed should be given attention. To counteract the second and third risks, a flexible and responsive solution for the implementation of this programme is also proposed, thus limiting the risk of embarking in projects that will have limited impact and interest.

30 Existing programs in this field deal with standards and conformity assessment and IPR.
5.2.6. Performance/Outcome Indicators

Following indicators relate to the activities that have been initially identified and are as such only indicative. The programme appraisal mission should review and upgrade the indicators.

1. Advocacy campaign - *Enhancing awareness, understanding and dialogue*:
   - Number of individuals and organisations participating in various activities (e.g., training, seminars, conferences, workshops, etc.)
   - Number of issues where awareness, understanding and dialogue have been enhanced or even resolved (e.g., based on the reports on the activities).
   - Level of increased awareness, understanding and dialogue by participants in various activities (e.g., based on feedback forms).
   - Information/advocacy material produced.

2. Capacity building – *Strengthening key government institutions involved in trade, investment, and finance*:
   - Number of government officials and organisations participating in various activities (e.g., training, seminars, workshops, etc.)
   - Number of issues where skills have been enhanced or advice provided (e.g., based on the reports on the activities).
   - Level of skills improvement and quality of advice provided (e.g., based on feedback forms).

The outcomes expected through the two sets of actions relate to the three specific objectives and expected results. The indicators for said outcomes could be:

- the number and extent of WTO commitments adopted and implemented;
- the number and extent of adjustment mechanisms employed to ease the Philippines’ integration into the global economy;
- the number and extent of policy and regulatory reforms implemented to enhance competition.

5.2.7. Financial Envelope

The EC Grant is estimated at a total of €2 M.

5.2.8. Indicative Timeframe

Preparation should be carried out in 2002 for commitment the same year. The duration of the programme should be four years to allow for both short term and some longer term interventions depending on the needs.
The Commission’s communication “Towards a New Asia Strategy” and the first ASEM Summit held in Bangkok in March 1996 highlighted the need to promote mutual understanding between Europe and Asia. Co-operation in the field of higher education, with mobility between Europe and Asia and close ties between European and Philippine institutions, results in better mutual understanding, particularly among business, public sector elites and policy makers, and thus to better take up economic co-operation opportunities, resulting in increased prosperity for both regions.

In this context, the European Commission has given support for European Studies Programmes (ESP) in several Asian countries, including the Philippines. The ESP Philippines (1995-1998) produced important results and its consolidation has received the support of the programme evaluators, government partners and particularly of the EU Heads of Mission.

Further to the submission in 1999 of a project proposal by the Consortium of Universities in the Philippines, which was the beneficiary in the previous programme, for an enhanced co-operation in the field of European Studies, the European Commission sent a mission to the Philippines in September/October 2000 in order to assist define a new project. As a result, an initial draft financing proposal has been elaborated with inputs from the mission, the Consortium, and the Delegation, though this is still the subject of on-going discussions. The approval of ESP II would clearly further support EU-Philippines economic relations given that business and economy is specifically identified as one of the fields of specialisation.

5.3.1 Objectives

The general objective of the project is to improve mutual understanding and relations between Europe and the Philippines, particularly among business and public sector elite, by enhancing the “understanding of the European Union in the Philippines”. Such an improvement in mutual understanding is in turn expected to enhance economic co-operation opportunities between Europe and the Philippines.

Specific objectives could be to: (i) curriculum development of the member universities of the European Studies Consortium; (ii) basic or specialised training on the European Union for Filipino scholars and students of ESC member universities; (iii) faculty development/advanced training in the European Union for Filipino faculty of ESC member universities; and (iv) a reinforcement of the European Documentation and Research Centre (EDRC) means and bibliographic funds.

5.3.2 Expected results

At the end of the four-year programme the graduate and undergraduate programmes established within the ESC could be strengthened and initiatives towards further ESP-related courses/curricula in specific ESC member
universities would be undertaken. More than 300 students could receive basic training on EU issues. 24 scholars could complete doctoral coursework (12) or obtain Master degrees in Europe (12). The EDRC should have more than 4500 titles in the catalogue and 6 new branded computers. Not less than 120 would attend each international conference. An estimated 600 decision-makers (businessmen and government officials) and other professional/technical staff concerned with EU-related issues should have participated in the outreach activities.

5.3.3 Activities:

A total of seven activity fields could be developed: 1) Curriculum development; 2) Basic or specialised training on EU issues by European scholars; 3) Advanced training for Filipino scholars/faculty of ESC member universities in Europe (Ph. D. and Master grants will be awarded); 4) Reinforcement of the European Documentation and Research Centre in De La Salle University; 5) Organisation of International Conferences; 6) Printing of publications and creation of a web site, and 7) Implementation of outreach activities.

The fields of specialisation could be: (i) Economy and Business of the EU; (ii) Politics and Policies of the EU (ii); (iii) European Community Law; and (iv) History of the EU.

5.3.4 Implementation:

Potential activities identified under 5.3.3 could be implemented through a combination of regional programmes and punctual support to local activities under the Delegation's micro-project facility.

5.3.5 Risks and Conditionalities

Major assumptions for the successful completion of the programme are the following:

- Philippine economy maintains the trend of restoring its fundamentals.
- EU and Member States Co-operation to development in the region is increased.
- Students and scholars consider European Integration Studies as an attractive alternative to other fields of knowledge.
- Academic and administrative staffs of ESC universities are committed with the enhancement of the curricula.
- PAU and European Antennae offer to the Ph.D. and Master candidates a wider range of hosting universities and academic institutions in Europe.

5.3.6 Performance/Outcome Indicators

Following indicators relate to the results expected:
• strengthened graduate and undergraduate programmes established within the ESC
• initiatives towards further ESP-related courses/curricula in specific ESC member universities undertaken
• number of students who received basic or specialised training on EU issues
• number of scholars who have completed a doctoral coursework or obtained a Master degree in Europe
• number of titles in the catalogue and new computers provided to the EDRC
• number of participants to the international conferences
• number of decision-makers (businessmen and government officials) and other professional/technical staff concerned with EU-related who participated in the outreach activities.

5.3.7. Financial Envelope

The EC Grant is estimated at a total of €1 M.

5.3.8. Indicative Timeframe

The proposed duration of the programme is four years. The budgetary commitment could take place in 2002.

6. Cross Cutting Theme: Good Governance

6.1 Strategic Context /Justification

The current political leadership is showing a strong commitment toward improving the governance framework in the Philippines31: the Administration is promoting good governance as a means to attaining equitable development of the country and which constitutes a main point of its development plan for the coming years.

Several multilateral and bilateral donors are already supporting the country in this pursuit32 and the EC-Philippines Country Strategy Paper 2001-2005 (CSP), underlines the Commission’s readiness to support interventions in this field as follows: “The Commission has increasingly voiced its concerns regarding corruption and good governance in the region and is ready to contribute to the Philippines’ efforts33.

By recognising that the current governance situation is an underlying obstacle to further development, actions to enhance the governance framework in the Philippines would be consistent with the overarching objectives of EC-Philippines co-operation as stated in

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31 This was reiterated in the State of the Nation Address by President Gloria Macapagal-Arroyo, 23 July, 2001 and further supported by the Draft Medium Term Philippine Development Plan, August 2001, Chapter 12
32 The World Bank, ADB, UNDP, ILO, Australia, Canada, Germany, Japan, The Netherlands, New Zealand, Norway, USA, and others are active in the field of governance relating to institutional reform, support to decentralisation, anti-corruption activities as well as corporate governance. For a more detailed description, see Annex B.
the CSP, namely; 1. Assistance to the poorest sectors of society and 2. Facilitating the integration of the Philippines in the flow of international trade.

More particularly, the CSP underlines the need to create a conducive business climate favourable to foreign investments through institutional reform in the public sector, the judiciary system and implementing liberalisation, stating good governance and institutional reform as a priority area for intervention. This approach is shared by the Member States’ Heads of Mission in Manila who also draw the attention to the importance of good governance in the Heads of Mission’s draft Report on Measures to Enhance EU-Philippine Co-operation.

In view of the above, supporting the governance reform process offers an opportunity to ensure the long term impact of the EC’s co-operation efforts, aiming both at improving the quality of life for the poorest sectors of society and creating a business environment favourable to enhancing EU-Philippines economic relations.

Good governance is a crosscutting issue dealing with the effective delivery of services by a democratically accountable government. As such it focuses on institutions, their structures, procedures and capability to deliver services as well as their regulatory framework. As this area is multifaceted, dynamic and highly influenced by the existence of political will to approach the subject, we would propose a flexible and responsive Governance programme that would:

1. Allow for targeted interventions in various sectors where the EC could make a positive contribution especially related to other EC interventions and where the EC could have a high impact, and

2. Take into account the need for flexibility to specify opportunities for interventions as they arise, given the dynamic and sometimes political nature of the issue at stake.

This programme would offer opportunities to be part of a wider multi-donor programme as well as offering other possibilities for donor co-operation. Furthermore, the activities foreseen under the areas of intervention create a link between development and economic co-operation. Particular importance has been given to proposing activities that would have high impact in terms of EC-visibility. Attention has also been made to what other donor’s are doing in the field in order not to overstrain the absorptive capacity of beneficiary institutions. These considerations should be further assessed at the programme appraisal stage.

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34 CSP, p. 18  
35 CSP, p. 20  
36 Manila HoM’s draft report on Measures to Enhance EU-Philippine Co-operation, September 2001. (To be discussed in the COASI)  
38 As part of the Supreme Court Judicial Reform Programme established in co-operation with the UNDP and WB.  
39 Possibility to co-finance anti-corruption activities with the UNDP aiming at enhancing Civil Society’s function in monitoring the government’s delivery of services.  
40 As an example, measures to improve transparency of the Judicial System will benefit the poor but also contribute to the enhancement of the rule of law which is a core pillar of a functioning market economy.  
41 Activities such as high profile events, workshops and exchange activities could be foreseen. For such activities it would be possible to invite European academics and practitioners.  
42 See Annex D
6.1.2 Key areas of intervention

Possible key areas of intervention have been identified below. For a more detailed discussion see Annex C.

1. Support to decentralisation process: In support of the on-going decentralisation process, enhancing Local Government Units’ capacities to manage their budgets and generate revenues could be a possible niche for EC intervention. It is proposed that this component should strengthen LGUs in areas covered by EC rural development interventions building on their experience and infrastructure as well as contributing to ensure the long term sustainability of those interventions once EC support is withdrawn.

2. Support to institutional strengthening of the Judiciary: Supporting the reform of the Judiciary would allow the EC to be part of a wider government driven multi donor programme. EC-support to the reform process could be to increase transparency and awareness of the judicial system which is a niche not covered by other donors and which could build on European experience of increasing transparency and accessibility of its institutions to its citizens.

3. Support to anti-corruption activities: Corruption has been reported as one of the major stumbling blocks for development by the government and international observers alike. Increasing public oversight of government operations as a means to reduce corruption is being encouraged by the government and could provide a possibility for EC- support.

4. Support to good corporate governance: The weakness in the corporate governance structure with high concentration of ownership with inadequate protection of minority shareholders and lack of public disclosure are often mentioned as an obstacle to economic development. Supporting both the government’s efforts with policy and legislative advice as well as supporting civil society organisations advocating for internal corporate governance reforms could be a niche for intervention that would complement trade and investment related interventions proposed in this NIP in Chapter 5.

6.2 Action: Improvement of the Governance framework in the Philippines: a Good Governance Programme

6.2.1 Objectives

The aim is to enhance the governance framework in the Philippines as a means to favour economic development and reduce poverty which is consistent with the development strategy of the government and the priorities of the CSP. The overarching goals are thus to contribute to an improvement in the quality of life for the poorest sectors of society and to create a business environment favourable to enhancing EU-Philippines economic relations.

Main objectives are:

- Support decentralisation through institutional strengthening at the local level which would enhance the long term sustainability of EC rural interventions.
• Promote the enhancement of an efficient, fair and transparent judicial system.
• Support the fight of corruption by increasing transparency and accountability in government.
• Improving corporate governance.

6.2.2 Expected results:

The Good Governance Programme should result in contributing to:

• Increased institutional capacity of Local Government Units.
• Enhanced efficiency and transparency in the judicial system.
• Improved transparency and accountability in government.
• Better corporate governance.

6.2.3 Activities

Certain key areas for intervention have been identified outlining possible niches for intervention. Below, examples of activities are given that could be supported in these niches. These niches of intervention would have to be examined further at the programme appraisal stage. In addition, as we are suggesting a flexible approach to implementation with a possibility to react rapidly as needs arise, envisaged activities can only be very indicative.

1. Support to decentralisation process: Enhancing LGU capacities to generate revenues: Actions foreseen could include: capacity building skills in governance in development planning, finance and budgeting, assistance in identifying alternative revenue raising mechanisms such as privatisation and Build Operate Transfer opportunities.

2. Support to institutional strengthening of the Judiciary: Increasing transparency and awareness of the judicial system: Actions could include formulating and implementing a public disclosure policy; establishing an information bureau; production of information material; dissemination of material down to local level; capacity building for judges and training for the Public Attorney’s Office.

3. Support to anti-corruption activities: Support to civil society and academe in enhancing transparency and accountability of government: Activities could include government monitoring, research, capacity building, round table discussions, conferences, support to EC-Philippines exchanges etc.

4. Support to good corporate governance: Short term technical assistance to certain government agencies could be envisaged for policy and legislative advice. Actions could include support to advocacy activities of civil society, conferences, workshops and think tank activities tackling also issues such as corporate social responsibility etc.

6.2.4 Implementation:

43 For further discussion on key areas of intervention, see Annex E
The implementation of the Programme will be defined during the formulation stage. As suggested previously, the implementation of the programme should allow for flexibility and may involve the establishment of a management office in the Philippines.

6.2.5. Risks and Conditionalities

The Governance field is per se a high risk area because of its political nature, although well targeted interventions can be a cost-effective way to achieve high impact results. The success of interventions in this field depend in some cases on factors external to the intervention itself (such as the delay of adoption of new legislation, political commitment to reform, etc.) and the success of interventions can also hinge upon concurrent reform activities being carried out. To counteract these risks, a flexible and responsive solution for the implementation of this programme is proposed, thus limiting the risk of embarking in projects that will have limited impact.

6.2.6. Performance/Outcome Indicators

Following indicators relate to the outcomes of interventions in the possible niches that have been initially identified and are as such only indicative. The programme appraisal mission should define the outcome indicators according to the exact interventions they will formulate.

1. Support to decentralisation process: *Enhancing Local Government Units’ capacities to generate revenues:*
   - Number of Local Government Units received training in development planning, finance and budgeting.
   - Number of successful opportunities to increase revenues identified and carried out.

2. Support to institutional strengthening of the Judiciary: *Increasing transparency and awareness of the judicial system:*
   - Development and implementation of information strategy
   - Development and application of disclosure policy
   - Number of information material produced and disseminated

3. Support to anti-corruption activities: Transparency and accountability in government
   - Number of government projects monitored
   - Number of relevant stakeholders involved in seminars and other awareness raising events

4. Support to good corporate governance:
   - Policy and legislative advice implemented
   - Improvements to external and internal corporate governance procedures
   - Number of key stakeholders reached through conferences and other activities

6.2.7. Financial Envelope

The EC Grant is estimated at a total of €6 M:
- An estimated €4 M for interventions under CSP focal area 1. Assistance to poorest sectors of society. (areas of intervention 1-3)
• An estimated € 2 M for interventions under CSP focal area 2. Assistance to trade and investment. (area of intervention 4)

6.2.8. Indicative Timeframe

Preparation should be carried out in 2002 for commitment in the same year. The duration of the programme should be four years to allow for both short term and some longer term interventions.
ANNEX A Focal point 1. Action 1: Consolidation and Expansion of the Philippines EC Rural Development Programme (CEPERD)

C.1 Rationale: Context and Strategy

C.1.1 Past and existing programmes

1. Since the beginning of its formal bilateral co-operation with GoP in 1986, the EC has focussed on combating poverty through integrated rural development and natural resources management, with a strong involvement of People’s Organisations, Non Government Organisations (NGOs) and Local Government Units (LGUs) as the prime vehicles for reaching the poor.

2. EC financed 17 such projects in rural areas with a high incidence of poverty dispersed throughout the country. The type of intervention is characterised by programmes with a number of different interventions designed to reinforce each other. Typical components include: Community Development, Institutional Support to LGUs, Agricultural Development, Agricultural Extension, Marketing, Rural Infrastructure, Micro-enterprise and Credit (micro-finance systems), Agrarian reform, Environment and Land-use Planning.

C.1.2 Evaluation Findings

Most of the EC funded projects had a positive impact on development in the targeted rural areas. However, their high number of capital intensive components and relatively small number of beneficiaries have made their positive impact to remain localised. Likewise, the successful methods and best practices developed in each of these projects have been too widespread across the different components and therefore difficult to immediately identify for possible replication by the Government in other areas.

Long term impact will depend on the extent to which successful models and best practices developed by the EC funded projects are replicated in similar neighbouring areas. Sustainability of the approach adopted will depend on the degree that these models are institutionalised and internalised by local partners and proper exit strategies implemented.

EC-funded projects are successful in mobilising Community Groups in undertaking development activities, primarily on basic infrastructure\[^{44}\] and livelihood\[^{45}\]. They have also been successful in strengthening LGUs in development planning, and in providing support services to the Community Groups. Likewise, they have proven that biodiversity protection in Protected Areas can be achieved with the participation of the

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\[^{44}\] including rehabilitation of rural roads and irrigation systems, and construction of water supply systems, footpaths and bridges and post harvest facilities

\[^{45}\] including micro-credit for micro-businesses, and marketing of agricultural produce
communities living in and around those areas, and with the participation of all relevant local and national authorities.

It has been also identified the need of additional post-project support, i.e. consolidation to improve sustainability, as a previous step for such successful interventions and best practices being adopted (owned) and replicated by the beneficiary.

C.1.3 Geographic focus for the future

1. Based on a review of its policy priorities in Asia, the EC has selected Mindanao as the prime area for support in the Philippines, where development will be conducive to peace and stability. Mindanao has a large economic potential for agriculture-led development and it belongs to the East-Asia Growth Triangle, thus receiving increased attention in promoting economic co-operation among the four countries46.

2. A second focus area will be the Cordillera Autonomous Region (CAR) in Luzon. All CAR six provinces belong to the group of 20 poorest provinces of the Philippines (ref. Basic Needs Survey). Furthermore, CAR has a predominantly mountainous area inhabited by indigenous people, as well as a unique bio-diversity. CAR has a crucial role in securing the water supply to the surrounding low land areas, including the metropolis of Manila. Furthermore, the EC has gained considerable experience over the past 12 years in the Cordilleras region.

3. Continued support outside Mindanao and CAR is only justified to consolidate benefits in areas supported by existing projects.

C.2 Objectives

The Programme aims to consolidate and expand the achievements of the EC-supported rural development projects, in order to improve their prospects for sustainability and generate greater impact.

The consolidation addresses the need for additional time and resources for certain projects to make sure that sustainability mechanisms are in place, and that project partners are capacitated to continue with the project interventions.

The expansion aims at helping GOP to build upon the experience of EC-supported projects in formulating rural development models that would enable it to implement similar projects in other areas in the future, either on its own or with other donors.

C.3 Expected Results

The Programme is expected to result in the following

a) Concerning consolidation:
Selected components/activities undertaken during EC projects continue in a sustainable way. An environmental assessment model could be developed. People’s Organisations being the main agents of implementation, this aim may be translated into POs further

46 Philippines, Malaysia, Brunei, Indonesia.
empowered so that they are able to sustain and expand their operations, able to continue the profitability of their livelihood activities or enterprises, and able to access services from government agencies, LGUs, the private sector and NGOs;

Projects partners from GOP, LGUs and NGOs are more capable and confident to continue the development interventions initiated and carried out by the EC-supported projects;

b) Concerning expansion

Successful Rural Development models/practices, drawn from the implementation experience and lessons learned from EC-supported rural development projects, and duly consolidated by CEPERD, are internalised (owned) by the GOP and LGUs and rural development stakeholders. This in order to enable the beneficiary to replicate those models in similar projects/activities in the same or neighbouring areas, either on their own or with other donors.

C.4 Activities

CEPERD is conceived with two major components:
   (i) Consolidation of selected projects intervention
   (ii) Expansion of such interventions.

They are outlined below, but will be reviewed and further elaborated by appropriate formulation mission(s).

C.4.1 Consolidation of selected projects interventions

Six past and ongoing projects have been recognised as requiring consolidation. For each project it has been identified the activities that would merit being included in CEPERD. Again, this identification will be reviewed and further elaborated during the CEPERD formulation.

a. CECAP 2 (ALA 95/28)– Dissemination of upland agriculture technologies in the other adjacent communities and increasing role of the LGUs.

b. ARSP (ALA/94/29) in Mindanao – Provision of additional support for commercial tree growing (agro-forestry).

c. NIPAP Mt Pulag & Mt Malindang – Validation, demarcation of boundaries and implementation of improved General Management Plan for each Protected Area.

d. CatAg (ALA/92/38)– Improvement the micro-business support services available to clients of the Micro-finance institution set up by the project.

e. WESAMAR (ALA/92/15) – Further strengthening of the WESAMAR Federation of Co-operatives (WFC) and its member co-operatives which are involved in coffee, abaca, seaweed, fish cages and micro-businesses and other productive activities. Linking these co-operatives with relevant GOP service agencies, LGUs and private sector entities, as well as further support for joint venture enterprises established by WESAMAR.

f. PRISP (ALA/90/11)- Review and updating of the manuals and other materials developed by the project in participatory planning and assist in their promotion both at central and local level.
C.4.2 Expansion and Cross-Cutting Activities

Activities will deal with the promotion/institutionalisation of EC projects’ best practices in rural development, in the same and neighbouring areas where the above projects have been implemented. Main channels for this dissemination will be the LGUs and the NGOs, as well as targeted institutions (e.g. micro-finance institutions).

In principle they will cover fields such as

- Assistance to Community Based Organisations in production and marketing activities, both on-farm and off-farm
- Developing viable Micro-finance systems in the rural areas with Micro Finance Institutions providing retail services
- Develop the capacity of LGUs to i) undertake development and ii) provide required support services to the rural poor.

C.5 Implementation

The implementation modalities will be defined during the formulation of CEPERD, bearing in mind the following principles:

- Due to the range of activities that CEPERD will cover, a relative large number of government agencies may be concerned. However, the top management body of the project (whatever it would be Steering Committee, Multi-agency Project board,…) has to be carefully designed in order to achieve the maximum of efficiency in the decision making.
- A decentralised management, at least at regional level (Luzon and Mindanao), should be favoured.
- The legal entity (institutional arrangement) of the implementing structure should be set up with a view of rendering it sustainable after CEPERD ends.
- Direct project implementation in the selected areas will be facilitated through the offices set up by the projects that were implemented, so as to utilise project facilities, reduce outlays and maximise resources.
- The actual execution of CEPERD consolidation activities should be done by the various line agencies, LGUs, NGOs and People’s Organisations that have assumed (or will assume) responsibility for continuing the selected activities in each of the CEPERD targeted projects, in conformity with what is identified in their different sustainability plans.
- Foreign and local TA requirements should be defined, at the formulation stage, with a view of making the best use of local resources, in particular those that have been enhanced during the implementation of EC projects.
- Civil society should be involved as much as possible (e.g. (NGOs contracted for POs capacity building; micro-finance institutions for the micro-finance system).

C.6 Risks and Assumptions

47 Such as DA, DAR, DENR, DILG, and other supporting agencies such as NEDA, DBM, DTI, DOF
The field-level activities will strongly depend on the political will of the concerned LGUs to support project activities. The risk can be minimised by ensuring LGU and beneficiary ownership of the project, a key measure of which is to co-invest in activities.

C.7 Performance/Outcome Indicators

Performance and outcome indicators will be defined, per project and per component at a later stage, i.e. at project formulation/appraisal.

C.8 Financial Envelope

€20M EC grant, which will cover the cost of TA, staff and operations of the project offices, equipment and materials, and the cost of project activities. Government counterpart will be in terms of existing staff based at the line agencies or LGUs, and budget allocation for VAT/taxes generated by the project implementation.

C.9 Indicative timeframe

4 years starting in 2003 (indicative)
ANNEX B What Other Donors are Doing in Improving Governance

Public sector reform to improve governance, and transparency and fight corruption is supported by a number of bilateral and multi lateral donors. In supporting good governance and public sector reform donors are seeking to ensure the Philippine government is able to manage social and economic resources in an effective and efficient manner according to the criteria of transparency, equity and accountability. In the area of good governance the World Bank, ADB, ILO, UNDP, Australia, Canada and Norway are all active, whilst in the judicial system reforms supported by World Bank at the Supreme Court with the Action Programme for Judicial Reform (APJR) 2001-2006, as well as USA, UNDP and JICA are the most noticeable together with an ADB TA aimed at strengthening the independence of the judiciary.

The Department of Budget and Management (DBM) and National Economic Development Authority (NEDA) are charged with the driving of the reform process and as such there are a number of donors providing assistance to both DBM and NEDA. Donors currently providing various levels of assistance include the World Bank, which is providing short-term consultancy services and off shore training for the Public Expenditure Management (PEM).

The German co-operation has provided technical assistance to NEDA to support the formulation and development of a sustainable Public Expenditure Management concept and the medium-term Expenditure Framework for the Philippines.

AusAID has assisted with the formulation of a monitoring and evaluation framework for the PEM focus on public investment and is planning further training work in budgeting and performance management. New Zealand is providing long-term assistance over a three-year period to improve governance and CIDA is currently assisting DBM with the implementation of an electronic procurement system. In addition USAID has recently agreed to an extension of a project to modernise the procurement system to reduce corruption and delay, and increase transparency.

What Other Donors are Doing in Improving Local Governance

USAID through the AGILE facility is involved with the DoF and congressional committees in the strengthening of local government finance and legislative work, to provide a fairer allocation of resources to local governments nationwide. UNDP in conjunction with Ateneo Centre for Policy and Public Affairs, are providing assistance in the development of good governance indicators for poverty programme assessment in selected municipalities across a number of regions. Australia as part of

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49 Country Assistance Strategy for the Philippines World Bank 1999 page 16
50 Country Assistance Strategy for the Philippines World Bank 1999
52 Provided under the Philippine Australia Governance Facility (PAGF) 2000-2001
53 Agreement to be signed between GoP and New Zealand government in mid 2001
54 Procurement Computerisation Project was completed in 2000
55 Further three years of assistance planned
their governance assistance is providing LGU assistance through the Development Academy of Philippines in the formulation of performance indicators and standards of development administration. On a further programme a funding facility lodged in the Municipal Development Fund of the Department of Finance funded by World Bank to assist municipalities on project related to Community-Based Resources Management Project (CBRMP) is well advanced. CIDA is supplying a Local Government Support Programme and is helping LGU’s with revenue planning, development planning and logical framework analysis tools.

As part of the German supported Bondoc Development Program participatory Barangay and Municipality development planning was successfully introduced. This approach is already replicated in other provinces with only minimal outside assistance and will also form part of the Leyte Island program and other German initiatives in the Visayan region.

The Government of the Netherlands in conjunction with the ILO are providing monitoring and evaluation tools on the third phase of a nationwide Integrated Accessibility Planning project which goes through until 2002. USAID has also recently commenced the design of an LGU Internal Credit Screening and Credit Rating System to provide municipalities with creditworthiness profiles. UNICEF is working with selected municipalities mainly in Visayas providing local policy and institutional development indicators to promote child friendly barangays and promote child rights. The ADB are working with the Development Academy of Philippines and DILG promoting a report card survey of urban and municipal services in eleven cities of Metro Manila to better understand the organisation and administrative arrangements.

UNFPA is providing assistance to the Commission on Population (POPCOM), Department of Health and selected LGU’s on a gender sensitive health programme and policy work to promote and environment conducive to population and development programmes and to improve governance.

What Other Donors are Doing in Corporate Governance

USAID through the governance facility AGILE are providing assistance to the Securities and Exchange Commission and the Philippine Stock Exchange and, in the area of strengthening bankruptcy laws and procedures are assisting Bangko Sentral ng Pilipinas. In addition ADB and the World Bank are undertaking assistance to strengthen banking supervision and address money laundering concerns.

What Other Donors are doing in the area of anti-corruption activities

Key Philippine Government institutions engaged in anti corruption activities include: Civil Service Commission, Commission of Audit, Office of the Ombudsman, Presidential Commission against Graft and Corruption and Interagency Graft Coordination Council. Donor agencies such as the World Bank, USAID and CIDA are involved in reengineering the government procurement system to remove opportunities for illegal practices and to use technology as a monitoring and auditing medium. A

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56 Meeting with Assistant Secretary Officer in Charge Local Government Academy
57 Donors Forum on Local Governance LGU Benchmarking Richmond Hotel June 21 2001
number of ODA projects supported by bilateral and multi lateral donors.\textsuperscript{58} are specifically designed to combat irregularities and to improve governance, and transparency such as the UNDP, Ausaid etc. . In supporting good governance and public sector reform donors are seeking to ensure the Philippine government is able to manage social and economic resources in an effective and efficient manner according to the criteria of transparency, equity and accountability.\textsuperscript{59}

\textsuperscript{58} Country Assistance Strategy for the Philippines World Bank 1999 page 16
\textsuperscript{59} Country Assistance Strategy for the Philippines World Bank 1999
Annex C Key areas of Intervention in the Good Governance Programme

Good governance is a multifaceted concept and thus the possibilities for intervention are numerous. By first of all taking into consideration the priorities of the Government of the Philippines; the priorities set out in the CSP; previous EC experience; together with what other donors are doing in the field, initial priority areas for intervention have been identified. However, given the dynamic and political nature of the issue at stake, these areas and the more specific mode of intervention should reviewed by an appraisal mission. They should also be subject to continuous assessment, reason for which we are proposing a good governance programme with a flexible and responsive approach for implementation.

The areas of intervention and possible niches below have been grouped according to two overarching objectives for EC involvement in this field: 1. Improving quality of life for the poorest sector of society and 2. Creating a business environment favourable to enhancing EU-Philippines economic relations. These objectives are consistent with the main priorities of the CSP. It should be stressed however, that envisaged activities will create synergetic effects between economic and development co-operation. As previously stated these areas are only indicative and the possible niches for intervention should be thoroughly reviewed by an appraisal mission.

The EC’s efforts should be co-ordinated with efforts of the EU member countries, in particular with the support provided by the Federal Republic of Germany. The co-ordination and/or co-operation could lead to synergies as similar approaches are or will soon be implemented by several German supported initiatives in the Visayan region.

1.1 Key areas of intervention aiming at contributing to the improved quality of life of the poorest sectors of society:

1. Support to strengthen decentralisation: Municipal Capacity Building – Governance and Revenue Generation

Given the extensive experience of the EC in supporting capacity building at the local level through the numerous bilateral development projects in the last decade, strengthening Local Government Units’ capacity to deliver services is an area where the EC has considerable comparative advantage. As highlighted in the CSP, the first phase Global Review Mission of 1999 explicitly recommended the continuation of such support and the preliminary findings of the on-going second Global Review Mission has validated this recommendation, in light of the EC’s proven track record.

Supporting interventions that would improve governance and economic development at Local Government Unit (LGU) level would be in line with the Government of the Philippines’ priority to enhance the ability of weaker municipalities to attract investment and generate income poorer areas of the country. In this way, the concerned LGUs would reduce their dependence on the

60 Other donors such as Ausaid (Philippines Australia Governance Facility), Usaid (AGILE Facility) and UNDP have also opted for a flexible approach for interventions in the field of Governance.

Internal Revenue Allocation. Moreover, these interventions would encourage and assist municipalities in forming alliances with other municipalities and/or joint ventures with the private sector and identify privatisation and Build Operate Transfer opportunities which is in line with the strategy of the government. Capacity building skills in governance are required for local government especially in development planning and in the areas of finance and budgeting, as well as a strong programme of training and skills development, structured from a needs analysis.

It is proposed that this type of capacity building should take place in the areas covered by the “Consolidation of rural development projects” included in this NIP, which would in the long term contribute to enhancing the sustainability of those EC-interventions. Furthermore, possible interventions in this area could operate within the existing infrastructure and framework of these rural development programmes, so as to utilise project facilities, reduce outlays and maximise the reduced ODA.

2. Institutional strengthening of the Judiciary: Increasing transparency and awareness of the judicial system

As previously mentioned the government is proposing a series of reforms to strengthen their institutions. This is also set as a priority in the CSP. The Judiciary is an institution that is in dire need of reform and the government duly recognises the urgency of implementing judicial reform. Furthermore, the Chief Justice of the Supreme Court who will remain in office until 2006, has been the primary driving force behind the reform proposals, a fact which promises to ensure the continuity of progressive developments.

As previously stated, the CSP makes specific mention of the need to promote institutional reform in the judiciary. Although the EC has previously not been involved in this field in the Philippines considerable lessons could be learned from judicial reform support to the accession countries. A possibility to contribute to this process would be to support a multi-donor programme of reform led by the Supreme Court under the Action Programme for Judicial Reform 2001-2006. This Action Programme has been elaborated with the support of the UNDP and the World Bank. A number of significant donors such as the World Bank and Japan, Canada, etc. are already supporting or are exploring the possibility to support three components aimed at reengineering systems, processes and infrastructure. A fourth component of the programme; “Reform of the Support Systems”, could provide a possibility for EC support. Other options could be considered at a project formulation phase. This component would aim at increasing transparency, accountability and improved access to the judicial system, which would complement priorities given in the CSP in the area of Human Development and Rights. Supporting this component would partly draw on experience from an ongoing Anti-Death Penalty Campaign- project supported by the European Initiative for Democracy and Human Rights. Their experience has shown that the

62 Meeting with Director IV Office of Project Development Services DILG June by Global Review Mission II and Draft MTPDP, Chapter 12, p. 8, 17.
63 Draft MTPDP, Part IV
64 CSP, p. 20
65 CSP, p. p. 21-22
lack of transparency and information matched with inadequate legal assistance from the Public Attorneys’ Office provides an impediment to a fair and predictable justice system. This type of support would in particular benefit the more marginalised groups in society who cannot afford private representation and would enhance the general transparency and predictability of the legal system. On a more economic level, actions to enhance the rule of law will contribute creating a positive business climate in the country. The Supreme Court has already indicated its willingness to supply counterpart funding for an intervention of this kind\textsuperscript{66}.

3. Support to Anti-Corruption activities: Enhancing transparency and accountability in government

The Government recognises corruption as one of the fundamental problems of inadequate public service delivery\textsuperscript{67}. The CSP also highlights the need to support the government’s efforts to fight corruption\textsuperscript{68}. Several donors are involved in supporting the government’s attempts to fight corruption in the country. The World Bank can be seen as one of the main forces behind this thrust, having also produced a comprehensive study underlining that corruption hits the poor the hardest as it weakens the quality and delivery of public services as well as increases prices. Moreover it is argued that corruption acts as a disincentive for foreign investment\textsuperscript{69}.

Recognising that corruption is not solely about ethics but also about mechanisms, donors such as the World Bank, USA and Canada are supporting some “hardware” aspects of the anti-corruption activities, such as the computerisation of the public procurement system, which will eliminate many opportunities for corruption. The World Bank is also exploring the possibility of addressing corruption within the judiciary\textsuperscript{70}. Another way to fight graft and corruption is by involving civil society organisations in monitoring government operations as a way to increase public oversight. This is also recommended as one of action points to reduce corruption in the country identified in the World Bank Study previously referred to and could be a possible niche for EC intervention\textsuperscript{71}.

Supporting civil society with a view to monitoring government operations, could be a cost-effective way to promote transparency and accountability and thereby diminish malpractice. The fact that the government explicitly mentions the need to involve civil society in monitoring government in the draft MTPDP is of utmost importance, given that external monitoring is rendered very difficult without the commitment of the government and its agencies to accepting to be monitored\textsuperscript{72}. Support could be foreseen to civil society organisations and academic institutions involved in amongst others, government monitoring activities. These activities could take place both at the national and the local level. In order to increase synergies with other projects and build on the specific EU strength of supporting

\textsuperscript{67} Draft MTPDP, Chapter 12, p.
\textsuperscript{68} CSP, p. 20
\textsuperscript{69} Combating Corruption in the Philippines, p. 1
\textsuperscript{70} Meeting with the Supreme Court Programme Director for Judicial Reform, Ms Evelyn Dumdum, July 2001.
\textsuperscript{71} Combating Corruption in the Philippines, p.p. 22-23
\textsuperscript{72} Draft MTPDP, Chapter 12
local participation in government, monitoring activities could be carried out focusing on local level governance in areas covered by other EC-interventions. Here, organisations at the national level could support grass roots NGOs in monitoring local government projects as well as providing the local level decision makers with information of their constituencies’ preferences.

Related activities could be designed to provide support to conventions, seminars, workshops etc. bringing in European expertise and involving a wide network of civil society organisations, academics as well as civil servants. This would generally evoke interest from the donor community, the government and the wider public alike, considering the acuteness of the issues at stake. As such it would contribute to raising the EU’s profile in the Philippines, especially if experience from European scholars and civil society could be tapped. The UNDP would be willing to explore possibilities to co-finance activities of this kind.

1.2 Area of intervention aiming at creating a business environment favourable to enhancing EU-Philippines economic relations

1. Strengthening Corporate Governance

By adopting a holistic approach to good governance, enhancing the governance framework in the Philippines cannot be done without tackling the issue of corporate governance. A weak corporate governance system effectively hinders the growth of competitive businesses that can withstand the competition on the global market. Moreover, in absence of necessary corporate governance standards, the concentration of business ownership may lead to interlocking business interests and other inefficiencies such as insider dealings etc.. An enabling corporate governance structure would on the other hand increase corporate efficiency and innovation as well as bolster long term foreign direct investment in the country. As such, a proposed intervention in this field would contribute to the overarching objective found in the CSP of integrating the Philippines into the international flow of trade as well as enhancing an environment favourable to competition. It will also complement the activities proposed to enhance trade and investment found in Chapter 5 of the NIP.

Some of the structural weaknesses in the Philippines have been identified in the CSP regarding the banking system and more urgently in the corporate financial structure. These findings are confirmed in an ADB study that points out the highly concentrated family based ownership of corporate groups as a source of concern. Others are for

73 In fact in an WB study on decentralisation in the Philippines, one of the weaknesses identified is that the local decision makers are not aware of people’s preferences and inversely, people at the local level are often not aware of local policies concerning them. World Bank, Decentralisation and Governance PREM Notes, Issue 55, June 2001

74 Meeting with Emmanuel Buendia, Programme Officer, UNDP Manila Office, August, 2001.

75 This area of intervention supports the trade and investment action in Chapter 5 of the NIP.

76 Corporate governance is the system by which business corporations are directed and controlled. This takes place through external control mechanisms such as the regulatory framework and monitoring by relevant public agencies as well as through internal corporate procedures. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

77 CSP, p.p. 18, 20

78 CSP, p. 8
instance that banks have noticeable presence as members of affiliated business groups which has led to lending to groups members without enforcing accurate monitoring standards. In this situation, minority shareholders rights are not ensured as corporate groups tend to venture into high risk projects. The lack of public disclosure on company information and lacking auditing standards are cited as other major obstacles.

The Government of the Philippines is well aware of these weaknesses and has set following priorities for improving the corporate governance framework:

1. Addressing the weaknesses of corporate and capital market governance such as issues on ownership concentration, cross-ownership of corporations and banks, debt resolution procedures, etc.;
2. Improving the regulation of markets and institutional investors and upholding the autonomy and authority of the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE) over market participants; and
3. Simplifying listing requirements and broadening disclosure requirements.

In support of the government’s reform process the EC could provide short term Technical Assistance for policy and legislative advice. Moreover, another possible niche for EC intervention could be to support advocacy efforts of civil society in improving the corporate governance framework. Acting in the public interest, several civil society organisations are advocating for changes to the corporate governance framework which would be a most valuable input to the government’s reform policy as outlined above. Support could be given to civil society organisations that would have the capacity to interact with government for advocacy purposes and who could act as a platform convening various groups including business associations. The active involvement of the business community in this process is of key importance as corporate governance reform also has an internal reform agenda with regards to the roles and responsibilities of the Board of Directors, the CEO, etc. Issues such as corporate social responsibility could also be addressed.

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1. **ASSISTANCE TO TRADE AND INVESTMENT**

1.1. **SMALL PROJECT FACILITY**

1.1.1. **Strategy Context/Justification**

The programme purpose is to provide a flexible and responsive tool to link policy objectives and EU’s economic co-operation activities in Philippines in order to support small, innovative and visible projects in areas of strategic importance for Philippines and the EU.

The Small Project Facility constitutes an adequate, flexible and necessary tool to tackle the development of dialogue and research in various sectors of mutual interest including the economic and regulatory reform process in Philippines. The outputs of the programme should be exploited by the decision-makers in order to enhance the partnership between the EU and Philippines.

1.1.2. **Objectives**

The overall objective of the SPF is to support the on-going reform and modernisation of the country’s economy and systems of corporate governance by facilitating enhanced interaction of European and Filipino civil society including the private sector, the networking of its policy makers and opinion formers and the linkage of Filipino and EU operators in business, the media and think-tanks.

Its specific objectives are to:

- Develop and facilitate implementation of small projects in areas of strategic importance and mutual interests to the Philippines and the EU,
- Enhance and improve the mutual understanding and visibility of both partners by promoting civil society (including the private sector) dialogue, reform of the public sector and the economy and facilitating partnerships,
- Provide management structures and funding procedures allowing for quick and efficient responses to various needs in a changing context.

1.1.3. **Expected results**

The outputs of the projects would include:

- Capacity building of training and business advisory and regulatory institutions
- Increased awareness and application of EU practices in areas such as regulatory reform, corporate governance or regional integration
- Studies in areas of mutual interest for the EU-Philippines partnership
- Dissemination and launching implementation of the results of policy-oriented seminars, workshops and exchanges
- Promoting the European Union within the Philippines business community and the Philippines within the European business community through the creation of regular discussion for sector meetings and information activities
• Strengthened capacity building and increased awareness among Filipino society on trade-related issues\(^1\)
• Media products for increasing the profile and visibility of the EU and its activities in Philippines, as well as awareness of shared concern about global challenges

1.1.4. Activities

The SPF is expected to support the implementation of about 5 or 6 projects per year in operational areas such as policy development and reform process, partnerships between Filipino and European institutions including the civil society, private sector, think-tanks and media, and EU visibility in the Philippines. Projects may take the form of:

• conferences, seminars and workshops;
• training, educational and capacity-building activities;
• research and studies;
• media events, media products and advocacy activities;
• other activities that promote the image of the European Union as a model or example of best or unique practice.

1.1.5. Implementation

The SPF will be managed directly by the EC Delegation in Manila. The Delegation will be responsible for the overall follow-up of the SPF including the approval of the calls for proposals to be published, approval of projects, the signature of grant contracts and their technical and financial follow-up. Under the procedures set up for the SPFs in the region, an Advisory Committee and an Evaluation Committee will be established.

1.1.6. Cross-cutting issues

The SPF is intended to provide a flexible and responsive tool to link policy objectives and EU’s economic co-operation activities in the Philippines. As such, there will be a number of cross-cutting issues such as capacity building, advocacy, governance and EU visibility.

1.1.7. Risks and conditions

The risks and conditions include the following:

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\(^1\) These outputs would neither duplicate nor overlap with the ones that will be part of one or several bilateral cooperation projects in the area of Trade-related technical assistance which are currently being prepared by the European Commission.
• Counterpart contribution from the applicants will be provided for project implementation
• Funds and other inputs to be provided by the EC arrive timely and in sufficient amount;

1.1.8 Main indicators

Indicators initially identified include the following: number of projects proposed and financed; outputs of the projects; average processing time of applications; number of projects related to EU know-how/technology; and debates and changes initiated concerning local legislation. These indicators may be developed further once the SPF is operationalised. Impact indicators will be defined during the implementation period.

1.1.9. Estimated EC Contribution

The EC committed a total of €3 million for the implementation of the SPF. Financial support to any given project may range from €50,000 to €250,000 which as a rule represent up to 75% of the total project cost. Thus, the applicants/beneficiaries are expected to co-finance at least 25% of total project costs.

1.1.10. Coordination with Member States and other donors

The SPF will be managed by the Delegation. It will ensure coordination with donors through regular meetings with the EU Member States and other relevant donors. Moreover, the interaction with the National Economic and Development Authority (NEDA), the focal contact for official development assistance to the country, should help facilitate cross-checking against such issues as double funding, and rejected projects being re-hashed for the SPF.

1.1.11. Indicative Timeframe

The whole programme duration is six years including an implementation period of four years for the individual project. Each call for proposals may have up to 3 deadlines.

The duration of an individual project shall not exceed twelve months. The Financing Agreement was signed on 21 May 2003.

1.2. TRADE RELATED TECHNICAL ASSISTANCE (TRTA)

1.2.1. Strategy Context/Justification

The Commission has in the past supported a number of business promotion activities. However, it has become increasingly clear that at least as important is the creation of a business-friendly environment of law, tax and public-policy that enables well-run businesses to thrive under a transparent and level playing field. This is acknowledged
by the Philippines in its revised Medium Term Philippine Development Plan 2001 – 2004. Furthermore, supporting the integration of developing countries in the world economy is a key objective of Community trade policy. In this context the EU and other developed country WTO members committed themselves in the Doha Ministerial Declaration to provide trade-related technical assistance (TRTA) and capacity building to developing country members to help them implement existing WTO rules and participate in a meaningful way in the new round of multilateral trade negotiations. The EU remains committed to deliver this kind of technical assistance.

Furthermore, TRTA to the Philippines should complement EU's regional policy within Southeast Asia, including co-operation under the Trans-Regional EU-ASEAN Trade Initiative (TREATI) and where appropriate, promote regional integration within ASEAN.

1.2.2. Objectives

The overall objective of the project is to assist the Philippines in building an enabling economic environment conducive to enhancing trade and investment relations with the EU.

The specific purpose of the project is to assist the Philippines to improve the knowledge of key operators (public and private) regarding international trade rules on one hand and enhance conditions of doing businesses between the Philippines and the EU in selected areas (standards, SPS, customs operations etc.) on the other hand.

1.2.3. Expected results

The envisaged major results of the project are:

(a) Enhanced knowledge and capacity of government agencies, training institutions and the private sector to deal with WTO/international trade related issues;

(b) Filipino and EU traders experience enhanced trading conditions, with significantly reduced problems in the area of customs, standards and SPS.

1.2.4. Activities

In order to achieve the above results, the following activities are foreseen:

a) Product standards: Technical assistance and capacity building in the area of product standards for improving notification capacities in relation to WTO-TBT Agreement; review of all the existing Technical Regulations, Standards and Conformity assessment procedures in the Philippines and enhancement of the accreditation/certification system;

b) Sanitary and Phytosanitary standards: Various training activities; development of a website; delivery of some equipment to ensure compliance with regulations and standards;
c) Customs: implementation of efficient valuation and risk management techniques with the requisite modern database tools; a complete training needs analysis and the provision of basic courseware to cover selected customs techniques.

d) WTO/international trade capacity building: specific training courses to governmental staff with participation from other sectors (subjects to be nominated by Philippine government); Development of a training institutions network for the development of trade courses teaching material and training-the-trainers activities; development of a WTO/international trade issues advocacy campaign outside the project (under SPF)

e) Project management activities

1.2.5. Implementation

Implementation modalities will be further defined in the appraisal mission.

1.2.6. Cross-cutting issues

The project should have an indirect impact upon poverty reduction, to the extent that it increases foreign trade and investments thereby creating jobs and raising incomes. Consumers may also benefit from improved access to imported goods. Better collection of import duties could support increased public expenditures, ideally on social services.

The project should improve governance on WTO and other international trade related issues, particularly in the areas of customs, standards and SPS. Compliance with environment-related product standards and SPS issues could produce some environmental benefits and also yield some consumer protection.

The Project will aim at ensuring that gender participation in all activities is on an equal opportunity basis. Further screening of gender issues will be taken up by the project appraisal mission.

1.2.7. Risks and conditions

While the technical capacity of the staff in relevant Filipino agencies is often of good quality, coordination of the involved institutions may prove to be difficult.

For customs, there is of considerable risk that the databases might be misused and therefore further reflection is needed on the usefulness of these activities.

The success of the EC project also relies on continued overall political stability, on sound project management and on willingness to apply international practices in terms of standards and quality, etc.

1.2.8. Main indicators

Monitoring indicators will differ according to activity and could be differentiated according to gender where appropriate. They will be of quantitative, qualitative and
approximate nature (when data are hard to come by) and could possibly include the following:

a) Product standards: Quantity of notifications; Number of WTO-TBT awareness/training seminars provided; more credible system for accreditation of certification and inspection body (ies);

b) SPS: Higher compliance rates by the RP with EU regulations; Higher recognition by EU authorities of Filipino food testing methods; Well functioning SPS enquiry point; Satisfactory operation of a single integrating agency dealing with food issues; Increased knowledge and sustained promotion of GMP/HACCP in RP; Philippine food exporters experience less rejection at EC borders;

c) Customs: Valuation and Risk Management tools implemented; BOC academy TNA and courseware completed; reduced average clearance times for goods declarations; Increased revenue; Enhanced technical and management capacity of BOC personnel;

d) WTO/international trade: Number of training activities organised, and number of participants in various activities; Participants’ feedback on the quality and relevance of training received, level of increased awareness and knowledge; Quantity and quality of information/advocacy material produced; Number of participating institutions in WTO network; Number and quality of training courses on WTO/international trade courses developed; Quality and impact of advocacy campaign (outside the project).

e) Overall indicators: Growth of trade/GDP ratios and of bilateral trade flows

Indicators will need to be refined and brought up to date after the appraisal mission. Performance monitoring will be assessed against the general and specific objectives set in the Logical Framework.

1.2.9. Estimated EC contribution

The overall budget of the proposed activities would be about € 3-4 million should all the areas identified (standards, SPS, WTO capacity building and customs issues) indeed be taken up by the project.

1.2.10. Coordination with Member States and other donors

Consultation with other donors (Member States, Japan, United States, Australia, World Bank, Asian Development Bank) in order to avoid duplication and ensure synergies. Information on the TRTA activities of other donors (e.g., WTO Secretariat, APEC, UNESCAP, ITC, ISO, WEF, CIDA) was also collected indirectly.

1.2.11. Indicative timeframe

The project is expected to be approved in the second part of 2004 with a period of three years for implementation of activities.
2. CROSS CUTTING ISSUE: GOOD GOVERNANCE

2.1. IMPROVING GOVERNANCE TO REDUCE POVERTY

2.1.1. Strategy Context / Justification
The current political leadership is showing a strong commitment toward improving the governance framework in the Philippines. It has been promoting good governance as a means to attaining equitable development in the country. This constitutes a main point of its development plan for the coming years. Recognizing that the current governance situation is an underlying obstacle to further development, actions to enhance the governance framework in the Philippines would be consistent with the overarching objectives of the EC-Philippines co-operation as stated in the CSP. The programme Improving Governance to Reduce Poverty links up with the Country Strategy Paper 2002-2006. Therein poverty reduction is a priority for EC intervention and institutional reform and good governance are described as preconditions for lasting economic and social development. Reforming governance is one of the six priority fields indicated in the Philippine Government’s Medium Term Development Plan.

2.1.2. Objectives
To improve good governance in the Philippines, with a special focus on those areas that hit the poor hardest. Thus, the programme ‘Improving Governance to Reduce Poverty in the Philippines’ will focus on two main areas, dealt with by two separate projects:

A. Corruption Prevention Project
The overall objective of the Corruption Prevention project is to prevent corruption in the Philippines, and thereby to:

• improve service delivery to the poor;
• enhance the country’s standing as a partner for foreign investment and trade and remove both the grievances and the opportunities (through covert dealings with corrupt officials) that contribute to terrorism and political violence.

The purpose of this project is to support the co-operative efforts of the Offices of the Ombudsman (OMB) in preventing corruption. It aims to improve the capacity of the Office of the Ombudsman and certain civil society organizations and government agencies.

B. Access to Justice for the Poor Project
The objective of this project would be to increase access to justice for the poor and vulnerable groups. Within this overall objective, the project purpose is to enable the poor in selected project areas to pursue justice through their increased knowledge about basic rights and the judicial system, and with the support of those working in law enforcement and the judiciary that have been sensitized to the economic and
social conditions of the poor within an overall legal framework amended to ensure the rights of poor women and children in particular.

2.1.3. Expected Results

- A decentralized Information Education Communication function within the court system is established and operational in the project area
- Legal information desks are established in the project area
- The poor are supported in their persuasion of justice by trained paralegals and professionals
- Government accountability and public confidence in the administration is enhanced
- Corruption and opportunities for corruption in government agencies are reduced

2.1.4. Activities

A. Corruption Prevention Project
- Collaboration with Civil Society Organisations
- Winning the co-operation of the wider public
- Co-operation with other government agencies to prevent corruption
- Management requirements of the Ombudsman

B. Access to Justice
- Decentralisation and institutionalisation of information function about the Judiciary
- Community development and empowerment of women & children
- Institutional development of Law Enforcement and the Judiciary
- Legal reform

2.1.5. Implementation

A. Corruption Prevention Project
The Office of the Ombudsman shall be the implementing agency. For the duration of the project, the OMB will second to the project various local staff. A European Technical Assistance Team (ETAT) will consist of a part time European Technical Expert and short term experts.

B. Access to Justice Project
The Supreme Court shall be the implementing agency. A Project Task Force led by a full-time Philippine Project Director designated by the Supreme Court will be responsible for the administration, procurement, monitoring, evaluation and coordination. An ETAT shall also consist of a part time European Technical Expert and short term experts.
2.1.6 Cross-cutting issues

Good governance itself is a crosscutting issue dealing with effective delivery of services by a democratically accountable government. As such it focuses on institutions, structures, procedures, capability and regulatory framework. Activities may also have high visibility. A Gender Impact Assessment may be needed for the Access to Justice Project.

2.1.7 Risks and conditions

Activities at the level of government are almost by definition high risk interventions because of their political nature. The success of interventions may depend on external factors such as delays in adoption of new legislation, political commitment to reform, concurrent reform activities.

A. Corruption Prevention Project

The TAPs include undertakings by both the EC and the Ombudsman to provide staff and resources. There are no critical pre-conditions that have to be satisfied before the project can take place.

B. Access to Justice Project

Clerks of court in the designated Municipal Courts have been designated as Municipal Communication and Information Officers (MCIOs) together with the allocation of a budget earmarked for IEC activities, materials & operational cost. A Supreme Court resolution has been taken, changing the mandate of the Clerk of Court to include MCIO responsibilities. Implementation agreements specifying the responsibilities of involved parties are required with all Local Government Units (LGUs) in the project area.

2.1.8 Main Indicators

A. Corruption Prevention Project

• Number of government projects monitored
• Number of relevant stakeholders involved in seminars and other awareness raising events
• Number and quality of reports by Ombudsman of corruption suspects
• Website, training materials prepared
• Public ratings of confidence satisfaction in the fight against corruption from baseline survey
• Civil Society Organisation members active in government procurement
• Streamlined key management processes
• Management Information System installed

B. Access to Justice Project

• Number of target individuals effectively informed about their basic rights and the judicial system
• Number and percentage of target individuals found the barangay justice system, police and court system accessible.
• Number of target individuals trained
• Training Needs Analysis conducted
• Supreme Court approved master plan for IEC strategy
• Information Officers per target municipal courts designated

2.1.9. EC Contribution: € 5-6 million

2.1.10. Coordination with MS and other Donors
In order to preserve the necessary coherence between the activities of the two projects and those activities undertaken by other donors in the sector, regular meetings will be organized with all interested parties (Member States and other donors) to ensure an open exchange of information, to avoid overlapping of activities and/or financing and to incorporate the lessons learnt by these other actors into the work of the two projects.

2.1.11. Indicative Timeframe

A. Corruption Prevention Project – 4 years implementation period
B. Access to Justice Project – 3 years implementation period
The Financing decision was taken in late 2003.

2.2. **FIGHT AGAINST TERRORISM - ASSISTANCE TO THE IMPLEMENTATION OF UNSCR 1373 BY THE PHILIPPINES**

2.2.1. Strategy Context/justification

Background

After the terrorist attacks of 11 September 2001 in the USA the United Nations Security Council (UNSC) on 28 September 2001 adopted Resolution 1373. This Resolution imposes wide-ranging obligations on all States to prevent and suppress the financing of terrorism, to establish adequate penalties for terrorist offences, to deny safe havens to terrorists and to co-operate with other States in criminal proceedings or investigations relating to terrorist acts. Resolution UNSCR 1377 addressed the issue of assistance to some countries to help them implementing UNSCR 1373. The resolutions also explore co-operation with international and regional organisations for the promotion of best practice, availability of assistance programmes and the promotion of possible synergies among programmes.

In its conclusions of 22 July 2002, the EU General Affairs Council emphasised the need for the EU to assist third countries in implementing their obligations under UNSCR 1373. It notably decided that pilot projects should be launched in a limited number of pilot countries and invited the Commission to consider action in this respect. Pilot projects would be examined in the various fields covered by UNSCR
1373: financial law and practice, customs law and practice, immigration law and practice, extradition law and practice, police and law enforcement work, illegal arms-trafficking etc. In response to this invitation and in agreement with the EU Presidency, the Commission identified the Philippines as a pilot country.

Initial assessment missions to the Philippines with participation of experts from several Member States were deployed in November 2002. This has resulted in the selection of several areas in which the Commission intends to implement activities through the Rapid Reaction Mechanism. This also includes activities which EU-Member States intend to follow-up bilaterally.

The EC has a longstanding history of cooperation with the Philippines and a commitment to the consolidation of good governance. In this context, the Commission is willing to bring support to the Philippines for the implementation of its obligations under UNSCR 1373.

Considering the location of the Philippines in a volatile region, the EC could, subject to the findings of the mission, provide for allocations from its National Indicative Programme for the Philippines to support the country’s obligations under UNSCR 1373.

The Commission will focus its support in the field of counter-terrorism on Border Management (in particular immigration) and the Fight against the financing of terrorism.

2.2.2. Actions

Border Management

The more than 7,000 islands which make up the Philippine archipelago, pose a challenge to security and law enforcement agencies. Security at airports and seaports is poor, circulation and use of forged documents is rife. It is easy for individuals to enter and exit the Philippines undetected. The Commission would examine to assist improving security operations in this respect. The main operational agencies are the Army Forces of the Philippines (AFP), the Philippines National Police (PNP), the National Bureau of Investigation (NBI), Customs and Immigration, supported by the Department of Justice, the National Intelligence Coordinating Agency (NICA) and the Philippine Centre on Transnational Crime (PCTC).

Fight against Financing of Terrorism

The Philippines anti-money laundering legislation was introduced in 2001 within the Republic Act No 9160 defining the crime of money laundering and providing penalties therefore. The need for an effective anti-money laundering (AML) regime is crucial and pressing for at least three reasons:

- Combating of financing of terrorism is a priority;
The Philippines have been included in the list of non-cooperative countries and territories (NCCT) of the Financial Task Force on Money Laundering (FATF) because of the serious deficiencies in this field; Combating money laundering means combating other sources of crime since the funds come usually from illegal activities.

The FATF announced on 13 March 2003 that it has decided not to apply any additional counter-measures to the Philippines. This decision is the result of the enactment on 7 March 2003 of Republic act N° 9194, which amends the Philippine Anti-Money Laundering Act of 2001. The new legislation addresses the main legal deficiencies in the regime previously identified by the FATF. However, the Philippines will remain on the list of non-cooperative countries and territories until it implements effectively its new anti-money laundering legislation.

2.2.2.1. Objectives

The overall objective of these actions is to contribute to restore peace and security in the Philippines with a view to improve the business and political climate of the Philippines.

The specific objective is to strengthen institutional capacity within the Philippines authorities in particular through TA, training and provision of equipment to combat terrorism especially in the field of border management and on the financing of terrorism.

2.2.2.2. Expected results

The programme aims to produce the following results:

- improved border management in particular in seaports and airports - in the area of immigration law and practice, police and law enforcement work, illegal arms-trafficking, and financial law and practice.

- Improved capacity of the Filipino government to combat the financing of terrorist activities.

2.2.2.3. Activities

The initial scope of activities comprises:

a) In the field of the border management: to examine the border management policies and assist the Filipino authorities in their formulation of a comprehensive Integrated Border Management Policy. This should include identification of needs for TA, training and provision of equipment and training for border management staff on the proper use of the equipment provided. To advise the Philippine authorities on operational matters related to border management, including existing procedures and co-ordination with other sector-related national and international networks fighting terrorism.
b) In the field of the fight financing of terrorist activities, to assist the Philippines authorities in the consolidation of the legal framework in line with the international recommendations and to strengthen the institutional and regulatory capacity. To make an assessment of the current set up of the Financial Intelligence Unit (FIU) taking into account available equipment and level of expertise of its staff, and identify further needs of equipment and training.

2.2.2.4 Implementation

The implementation modalities are still in an early definition stage. Appropriate implementation arrangements are currently investigated and will need to be defined taking into account the complete division of labour between different institutions in the Philippines. The RRM action began in October 2003 and has duration of six months. Results are expected by the second quarter of 2004.

2.2.2.5 Cross-cutting issues

The main cross-cutting issue addressed by the programme is Good Governance.

Indirectly, the programme also addresses the cross-cutting issue of Poverty alleviation. Improving the security situation in the country will encourage foreign investment which in turn will encourage economic growth and create employment.

2.2.2.6 Risks and conditions

Assumptions:
- Continued will of the government to address effectively the fight against terrorism
- Political stability
- Other donors, including EC Member States are willing to support the same thrust of activities and pursue common strategy.

Risks:
- The proposed programme may not be “locked in”, in an overall government commitment action plan,
- Upcoming Presidential and Parliamentary elections could mean a reorganization of the Government, staff and structure and hence put the commitment of the current government in jeopardy.
- Terrorist incidents and/or external elements could destabilize the situation and impede progress in the implementation
- Complex institutional framework in the Philippines impedes real progress.

2.2.2.7. Main Indicators

Indicators that reflect an improvement of the capacity of the Government to fight against terrorism

- Border operations system improved in selected ports
- Identification documents more secure and less prone to forgery
- Number of officials trained
Indicators that reflect security situation

- Reduced number of terrorist related attacks
- Number of officials trained

Indicators that reflect an improvement of the fight against the financing of terrorist activities

- Proper recording systems for financial transactions to and in the Philippines for all activities in place
- Number of officials trained

Indicators that reflect an improved good governance of the Philippines public administration

- Public (including private sector) ratings of confidence in the fight against corruption from baseline survey
- Number of officials trained

2.2.2.8. Estimated EC Contribution: € 5-6 million

2.2.2.9. Co-ordination with MS and other Donors

The European Commission will ensure full coherence between the proposed EC programme and government and other donor supported actions in the field of the fight against terrorism. The EC will ensure coherence between this programme and the overall EU actions in the same context through:
- regular CGI working group on security and on Mindanao
- regular meetings with government partners
- regular meetings with other donors, governments and international organizations
- regular meeting with Members states
- regular consultation meetings with NGO partners
- MS will be requested to carry out activities complementary to the proposed actions of the EC.

2.2.2.10. Indicative timeframe

The programme is likely to have a 2-3 years implementation period. The programme should follow up on the actual RRM action. Commitment is expected in late 2004.
# NATIONAL INDICATIVE PROGRAMME

## 2005-2006

### PHILIPPINES

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<th>Description</th>
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<tbody>
<tr>
<td>ALA</td>
<td>Asia and Latin America</td>
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<tr>
<td>ARMM</td>
<td>Autonomous Region of Muslim Mindanao</td>
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<td>ARF</td>
<td>ASEAN Regional Forum</td>
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<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nation</td>
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<tr>
<td>BOC</td>
<td>Bureau of Customs</td>
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<td>CARP</td>
<td>Comprehensive Agrarian Reform Program</td>
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<tr>
<td>CEN</td>
<td>Comité Européen de Normalisation</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CSP</td>
<td>Country Strategy Paper</td>
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<tr>
<td>DAR</td>
<td>Department of Agrarian Reform</td>
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<td>DENR</td>
<td>Department of Environment and Natural Resources</td>
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<td>DFA</td>
<td>Department of Foreign Affairs</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ECHO</td>
<td>European Commission Humanitarian Aid Office</td>
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<td>ETAT</td>
<td>European Technical Assistance Team</td>
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<td>EUMS</td>
<td>European Union Member States</td>
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<td>GMP</td>
<td>Good Manufacturing Practices</td>
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<td>HACCP</td>
<td>Hazard Analysis Critical Control Point</td>
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<td>HSRA</td>
<td>Health Sector Reform Agenda</td>
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<td>IDP</td>
<td>Internally Displaced People</td>
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<td>LGU</td>
<td>Local Government Unit</td>
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<tr>
<td>MCIO</td>
<td>Municipal Communication &amp; Information Officer</td>
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<td>MILF</td>
<td>Moro Islamic Liberation Front</td>
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<td>MRDTF</td>
<td>Mindanao Reconstruction &amp; Development Trust Fund</td>
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<td>MTR</td>
<td>Mid-Term Review</td>
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<tr>
<td>NEDA</td>
<td>National Economic Development Authority</td>
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<td>NGO</td>
<td>Non Government Organization</td>
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<td>NIP</td>
<td>National Indicative Program</td>
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<tr>
<td>RRM</td>
<td>Rapid Reaction Mechanism</td>
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<td>SARS</td>
<td>Severe Acute Respiratory Syndrome</td>
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<td>SOM</td>
<td>Senior Officials Meeting</td>
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<td>SPF</td>
<td>Small Projects Facility</td>
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<td>TNA</td>
<td>Training Needs Assessment</td>
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<td>TRTA</td>
<td>Trade Related Technical Assistance to the Philippines</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>US</td>
<td>United States</td>
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<td>WEF</td>
<td>World Economic Forum</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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1. **PREAMBLE**

1.1. **INTRODUCTION**

1.1.1. The ALA Regulation

The Council Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic co-operation with the developing countries in Asia and Latin America (“ALA Regulation”), indicates that five-year programming shall be established for financial and technical assistance and for the economic co-operation. The Regulation also foresees that the indicative multi-annual guidelines that apply to the main partner countries shall be adopted in coordination with a committee composed of representatives of the EU Member States.

Strategic planning is based on a Country Strategy Paper (CSP) covering a period of five years and containing the priority areas where the Commission intends to implement its co-operation. The CSP is translated into operational guidelines, laid down in multi-annual National Indicative Programmes (NIPs).

The Council ALA Regulation applies to the Philippines. The focus is on strengthening the co-operation framework and on making an effective contribution, through institutional dialogue, economic and financial co-operation, to sustainable development, social and economic stability and democracy.


The CSP for the Philippines covers the period 2002-2006 with an indicative budget of € 63 million.

A flexible, sector-oriented programme was identified with two focal areas of assistance: assistance to the poorest sectors of society and assistance to trade and investment. In addition, the CSP highlights two other areas of co-operation, both under the overall heading of good governance: human development and human rights and stability and security.

Cross-cutting issues including capacity-building, human resource development, civil society, gender and conflict prevention were also addressed. The sectors and cross-cutting issues corresponded closely to the Government’s overall development agenda and were in line with EC priorities.

The political situation has not altered considerably since the adoption of the CSP. However, the emergence of global terrorism has further accentuated the insurgency problems the Philippines are experiencing, namely: Muslim separatists in Mindanao and leftist guerrillas in various parts of the country. The government has taken a very firm stance against terrorism and seeks to cooperate with the international community to combat global terrorism. Corruption in both the government and the corporate sector and the resulting impact on law and order remain a major challenge for the government.
Although the Philippine economy has begun to recover from the Asian economic and financial crisis, the investment climate within the country continues to be plagued by external perceptions of the Philippines as a “high risk” destination.

(A summary of the Country Strategy Paper is annexed to this document – Annex (5.1)

1.1.3. The National Indicative Programme 2002-2004

The First National Indicative Programme (NIP) established within the framework of the CSP identified in general terms actions to be launched in the period 2002-2004. The NIP 2002 – 2004 focused on the following actions:

Focal Area 1: Assistance to Poorest Sectors of Society

Consolidation and Expansion of the Philippines-EC Rural Development Programme (CEPERD). The overall objective was to consolidate and expand the achievements of EC supported rural development projects, especially in Mindanao and the Cordillera Autonomous Region (CAR), in order to improve their sustainability. The indicative budget foreseen was €22 million. This was reduced to € 7 million after the Mid-Term Review (MTR-see 1.2). The programme was ultimately cancelled due to low performance and the lack of agreement with the government.

Health Sector Support Programme. The overall objective was to contribute to the implementation of the government’s Health Sector Reform Agenda (HSRA) by supporting interventions consistent with poverty alleviation strategies of the CSP and the Government of the Philippines (GoP), including sound population management. The indicative budget foreseen was €20 million. After the MTR, this amount was increased to € 27 million to reflect a thorough prioritization of health issues. The final amount foreseen is likely to be between € 32-34 million. The need for more preparatory work and stronger coordination between the Department of Health and other donors signaled that a SWAP on health should be moved to the NIP starting in 2005-2006.

Focal Area 2: Assistance to Trade and Investment

Small Project Facility. The overall objective was to support small and innovative projects in the area of corporate governance, advocacy for economic policy reform, the improvement of the business climate, and dialogue between business and civil society. The indicative budget foreseen for the EC contribution was € 3 million and the programme scheduled to start in 2004.

Trade Related Technical Assistance. This project aims to strengthen the capacity of the relevant government agencies responsible for the areas of product standards, sanitary and phyto-sanitary standards, customs and WTO’s issues. The indicative budget foreseen was € 2 million. However the identification mission with a more precise cost estimates that the final amount should be increased to up to € 3-4 million.

Cross cutting themes, such as Good Governance and Institutional reform. The overall objective was to improve the governance framework in the Philippines as a means for achieving sustainable development in the country. An amount of €4 million was initially earmarked for actions under these issues. However, the two actions, already
adopted in 2003 amounted to approximately € 5.6 million following the formulation mission.

1.2. THE MID-TERM REVIEW

The General Affairs and External Relation Council (GAERC) of March 2003 defined four criteria against which the validity of the Country Strategy Paper was to be assessed, and if necessary, changes made. The MTR for the Philippines was carried out during the first quarter of 2003. An assessment was made of the social, political and economic changes in the Philippines. It confirmed the continued validity of the priorities outlined, but concluded that amendments to the NIP 2002-2004 were needed in view of new and evolving circumstances, in particular concerning security and the fight against terrorism.

1.2.1. Main Political, Economic and Social Developments in the Philippines

1.2.1.1. Political Developments

The Philippines continues to have a free press, a vibrant civil society, a pluralistic party system (which is not well structured and very weak) and a functioning electoral process, although allegations have been made concerning incidences of vote buying. Although some progress has been made towards eradicating patronage from government and enforcing the rule of law, international surveys confirm that much remains to be done to improve the country’s administrative and judiciary effectiveness, as well as to entrench a culture of accountability.

A major challenge to Philippines internal stability is the persistence of violent guerrilla movements, communist insurgencies and Islamic separatist groups, the latter focusing on secessionist and fundamentalist objectives. These movements are fuelled by poor living conditions and poverty. Therefore, peace efforts continue but progress depends - inter alia - on the Government’s capacity to address poverty.

In this regard, it should be noted that the incidence of poverty in the Autonomous Region of Muslim Mindanao (ARMM) continues to be significantly higher than the Mindanao average and double the national average. The same phenomenon has also been observed in the Muslim region of Central Mindanao.

The number of internally displaced people and human rights violations by armed groups as well as the overall human rights situation in the Philippines is still a matter of concern. Furthermore, a moratorium on executions declared in 2000 was lifted in December 2003, calling into question the GoP’s commitment to abolish the death penalty.

Global terrorist activities also affected the security situation in The Philippines. Possible links with Al Quaeda operatives and others terrorists were investigated. The United Nations Security Council (UNSC) adopted Resolution 1373 which imposed a range of obligations on all States to prevent and fight against terrorism. The EU General Affairs Council emphasised the need for the EU to assist third countries in implementing their obligations under the Resolution 1373.
At the national level, other political- and security-related concerns in 2003 included the following: bomb explosions in Davao in March and April; increased bank robbery and kidnapping activities; drug-related lawlessness; the reported assassination of 7 journalists in the country (which is considered to be double the annual average); the army’s mutiny in July; and the divisive attempt to impeach the Supreme Court’s Chief Justice. Political tensions are expected to intensify in the run-up to the hotly-contested national elections in May 2004. All these events and issues have contributed to a perception of instability in the country, detracting from the GoP’s need to address urgent issues that clearly demand immediate attention and implementation of key reforms.

The Philippines participate actively in Asian regional mechanisms that promote new forms of political and economic co-operation, the latter of which being more advanced in the region. The ASEAN Free Trade Area and the Asia-Pacific Economic Co-operation and others have received new impetus from the growing role of China. SARS has exposed the region’s economic and security vulnerabilities.

Little progress has been made on the security problem in the South China Sea. The ASEAN Regional Forum (ARF) introduced for the first time in the region’s history a body for security consultation and co-operation that included all the major powers.

**1.2.1.2. Economic and social situation**

**1.2.1.2.1. Recent Economic Developments and Issues**

The Philippine economy has been showing signs of recovery from the Asian financial crisis, posting growth rates of 4.6% in 2002 and 4.3% during the first three quarters of 2003. Consumer demand, supported by substantial remittances from overseas Filipino workers has been a solid engine of growth. Fluctuations in external demand in recent years on the other hand have underlined the vulnerability presented by the (over)concentration of Philippine exports in terms of products (60% electronics) and markets (65% sold to US, EU and Japan). Market diversification however is already improving with exports to ASEAN reaching 16% in 2002 from 14% in 1999 and with export levels growing at double-digit rates (except for 2001). Nevertheless, unstable foreign direct investment inflows, reflecting the tumultuous domestic political and security situation, highlight the need for further and deeper reforms (e.g., in capital markets development and pension reform).

The relatively robust growth of services in general reflects the positive impact of past reforms, including the liberalisation of the telecommunications sector which has brought significant dynamic gains to the economy, including a strengthening of its position in the IT sector. The inconsistent performance of the agricultural sector underscored its vulnerability to weather shocks and poor underlying productivity, as well as the sector’s infrastructural and policy weaknesses (e.g., access to credit, research and extension, alternative non-farm activities). The GoP is under pressure to improve the economy’s competitiveness amidst an environment of volatile global markets and increased regional competition. Improvements in customs governance is of particular concern, as more incisive measures are increasingly required to prevent undue foreign competition from legitimate and illegitimate sources.

Such problems, together with the negative perceptions engendered by the contagion from the Asian crisis, have in recent years produced a change in the GoP attitude towards
globalisation. In contrast to the enthusiasm for outward oriented policies in the late
eighties and early nineties, which led to unilateral trade liberalisation programmes and
strong support to the Uruguay Round and WTO, recent administrations have called for a
“re-think” of such policies. There is a growing belief that the current multilateral rules
are steeped in favour of developed countries. At the WTO negotiations in Cancun in
2003, the Filipino delegation aligned itself with the G-21 by strongly supporting its call
for the abolition of agricultural subsidies in developed countries and opposing
negotiations on Singapore issues (Trade Facilitation, Transparency in Government
Procurement, Investments, and Competition).

Consequently, policy makers have re-directed their attention towards improving the
domestic sources of growth. The government is aiming at substantially reducing inter-
island transport costs to increase domestic trade and tourism. A “nautical highway”
campaign has been launched and opening of cabotage to foreign vessels is also under
consideration. The housing sector is also being revived. To reduce the cost of energy (in
the medium to long term), an Electric Power Industry Reform Act was passed in 2001.
The law restructures the industry, allowing for greater participation by the private sector
and intensified competition. However delays in the implementation of the Act are
threatening to plunge the country into serious power crisis within 3-4 years, with some
areas already suffering power shortages. Alternative sources of energy such as wind and
natural gas are also being developed.

Macroeconomic reforms should also restore government’s ability to stimulate the
economy. The fiscal situation is being improved through administrative and structural
reforms to enhance revenue (e.g., tax mapping, VAT enforcement, excise tax reforms,
review of fiscal incentives) and control expenditures (e.g., Procurement Reform Act of
2002,) but more fundamental institutional reforms (i.e., restructuring of the internal
revenue services into an independent organisation, right-sizing of the bureaucracy) also
need to move forward. A strong anti-corruption campaign will also be crucial to ensure
said reforms have the intended impact. Improved government finances should also
relieve the pressure to cut expenditures, especially those on physical as well as “social”
capital, and help improve the Philippines’ ability to absorb Overseas Development
Assistance.

In the monetary sector, credit intermediation seems to be improving of late with the help
of an accommodative monetary policy. More vigorous financial and corporate sector
reforms (e.g., enhancing availability of credit risk information, strengthening of
bankruptcy courts) and prompt and proper implementation of those already in place (e.g.,
Special Purpose Vehicle Act of 2002; tighter accounting, disclosure, risk-management,
capitalisation, and management standards; improved corporate and financial sector
distress resolution frameworks) are however needed to complement such a policy.
Monetary authorities are also improving their regulatory capacity through upgrading
human resources, hardware and software. Stronger legal authority and protection is
additionally needed to intervene in the most distressed banks. Financial sector
governance should also improve with the passage of a revised anti-money laundering law
in 2003, but effective enforcement needs to be ensured.
1.2.1.2.2. Social developments

The poverty situation in the Philippines has improved over the last 14 years though at a modest rate as compared to other ASEAN neighbours such as Thailand, Malaysia and Indonesia. Notwithstanding, poverty reduction remained to be an overarching development goal of all political administrations during the years.

Poverty in the Philippines remains to be a rural phenomenon. Whatever improvements achieved in reducing rural poverty in the 90s dissipated due to the Asian crisis and the El Niño, with the latter greatly affecting the rural areas.

In 2000, there were 26.5 million Filipinos living below the poverty line, which is more than one-third of the country’s total population of 80 million. Out of the 26.5 million, nearly 16 million are considered as core poor, or living below the subsistence threshold. There is also a notable disparity in the poverty situation across regions and provinces in the country. Poverty incidence has remained high in Mindanao, as insurgencies have continued to occur in the area), particularly in the Autonomous Region of Muslim Mindanao, as well as in the Bicol region and Cordillera.

Meanwhile, the Human Development Index (HDI) for the Philippines though improving has moved down in the ranking of 97 countries, from 44th in 1975 to 47th in 2001. Compared to other ASEAN countries, the Philippines has better education indicators but lags behind on other indicators such as health and access indicators. The Philippines has a relatively good participation rate which led to a high simple literacy rate of 92.3% in 2000. In terms of improvement in the health sector, while lagging behind as compared to other Asian neighbours, the Philippines noted an improved health conditions among Filipinos based on indicators which include infant and child mortality rates, maternal mortality rates and life expectancy, among others.

Various program interventions for poverty were implemented and focused at the community level. There is a concerted effort to “localize” these poverty programs with the objective of effecting convergence of services to the poor at the local level.

Since the first quarter of 2002, disparities in poverty incidence across sectors the Philippine population remain significant. While urban poverty has declined, poverty in the rural areas remains obstinately high, with three-quarters of poor families still residing in the provinces. Poverty incidence has remained high in Mindanao (as insurgencies have continued to occur in the area) as well as in the Bicol region and Cordillera.

Economic growth slowed to 4.3% during the first quarters of 2003 from the 4.5% pace established in 2002. This reflect slower agricultural growth, weaker exports, the impact of El Niño, SARS, and a cutback in government spending designed to reduce the budget deficit. This year’s mild downturn in growth is unlikely to have much of a negative impact on poverty. The Philippine economy remains relatively resilient.

There is also renewed regional and international co-operation against poverty in “Brunei, Indonesia, Malaysia, Philippines –East-ASEAN Growth Area” (BIMP-EAGA). However, these positive developments could be undermined if the jolts to investor confidence witnessed in the recent months, such as kidnappings, bombings, military mutiny, insurgencies, coup rumours, persist. Weak investor confidence associated with perceived
risks has delayed a recovery in investment and potentially limits future growth. The normal procedural difficulties of implementing reforms may also be increased by the political manoeuvrings and complications that are already being generated in the run-up to the 2004 presidential elections.

Since the CSP and the 2002-2004 NIP, the peace process in Mindanao (with the exception of the past six months) has not gained much momentum. The peace agreement with the MNLF (signed in 1996) is holding, but progress in negotiations with the MILF has been slow. The emergence of terrorism from external sources, has significantly influenced the peace process in Mindanao, with alleged links between the MILF and major regional (Jamal Islamiyah) and international (Al Qaeda) terrorist organisations further complicating the process.

Corruption in the ranks of the security forces (both Armed Forces of the Philippines (AFP) and Philippines National Police (PNP) and collusion with terrorist and criminal organisations have had a negative impact on the overall law and order situation in the country.

The economy has started to show signs of recovery from the Asian financial and economic crisis. However, the Philippines continue to experience high population growth. This, together with the perception that the Philippines is a high risk place for international investment due to security concerns and corruption are inhibiting factors in the economic development process. SARS further dampened economic activity.

1.2.2. New EC/EU Policy Objectives and Commitments

The CSP was analysed in the light of the new priorities in external EU/Community policies: Trade Related technical Assistance (TRTA); Justice- and home affair-related matters such as migration, counter-terrorism, conflict prevention; and environmental issues.

The MTR observed the following:

- TRTA is clearly identified in the CSP and NIP as a focal sector activity and actions were already programmed
- A modification of the CSP is not required for dealing with migration issues through a policy dialogue with the GoP. If specific actions are needed, they could be envisaged not only through the NIP, but also under specific budget lines
- Counter-terrorism, anti-money laundering and conflict prevention are already among the priorities of the EC co-operation with the Philippines. A revision of the NIP is necessary to accommodate actions in each of these areas. Good governance and trade are specifically identified as a priority under the NIP 2002-2004.

1.2.3. Results, Performances and Lessons Learned

The commitments for 2002-2003, at the moment of the MTR had not reached the levels foreseen in the NIP.

However, based on the assessment of the situation, the MTR and the Delegation suggested modification to the allocation of funds, within the priorities of the NIP 2002-
2004 (the MTR table with the revision of the budget allocation are attached to this document – Annex 5.2).

So far, the Small Project Facility, (€ 3 million) and two projects related to Good Governance, -Access to Justice for the poor, and Fight against corruption- for a total amount of approximately € 5.6 million) have been approved.

Preliminary discussions in 2002 and early 2003, to establish a sector wide dialogue with GoP and other donors in key areas, resulted in the realisation that the pace of resource programming could be improved by focusing more clearly on the health sector. The amount initially foreseen was € 20 million. After the MTR, this was increased to 27 million and finally up to € 32-34 million in order to achieve a higher impact of the programme. Since more time was needed to prepare for a sector wide approach on health (need to achieve consensus with the government and other donors) it was envisaged later on that the SWAP health should be shifted into the NIP 2005-2006.

The MTR also judged necessary the adaptation of the NIP 2002-2004 to reflect the socio-political developments that emerged since 2002. Although the fight against international terrorism and money laundering were already mentioned in the NIP, the Conclusions of 22 July 2002 General Affairs Council put a strong emphasis on the need for the EU to assist third countries in implementing their obligations under UNSCR 1373. Through the Rapid Reaction Mechanism (RRM) in the Philippines the EU-EC streamlined these issues (activities started in September 2003, € 1 million financed under a specific budget line outside the NIP) into existing programmes of capacity building in the broad field of good governance with assistance in the field of border control, training of police, money laundering, capacity building of the judiciary, and provision of equipment. The follow up of this action should be foreseen in the NIP for an amount of approximately € 6 million.

The Mid-term Review also concluded that Environmental policy (already covered as a component of most on-going programmes), Natural Resources, Human Rights matters (in complement to the actual actions on death penalty and indigenous people rights) and JAI issues (immigration) could, if necessary, be taken into account in the NIP 2005-2006, or in specific thematic budget lines.

1.2.4. Quality improvements

The adjustments to the NIP 2002-2004 reflected a sound assessment of the priorities stemming from the political environment in the Philippines. They also demonstrate the increasing importance given to cross-cutting issues such as good governance and the ability of the Commission to react swiftly to new issues (terrorism). By allocating more funds to the health sector, priorities have been further concentrated, allowing for a more rational approach to a highly complex sector.

1.3. CONCLUSIONS

1.3.1. CSP’s priorities are still valid

The basis on which the CSP was designed in 2001-2002 is still valid. The Philippines continues to have a relatively high incidence of poverty, especially in Mindanao. The
emergence of global terrorism has had a marked impact on the government’s policies and efforts in these areas. Progress has been made in terms of economic recovery since the Asian financial and economic crisis, but it has partly been offset by high population growth and an unfavorable investment climate. The upcoming elections in May 2004 and the eternal “politicking” further exacerbate the situation. Improving good governance continues to be recognized as a prerequisite for sustained economic and social development and remains the underlying principle for the building of effective and efficient government and private sector institutions.

Counter-terrorism activities have so far been carried out through specific “ad-hoc” short term measures like the RRM. These “ad-hoc” actions will form the basis for more structured interventions envisaged as a follow-up in the medium and long term. The CSP already mentioned that areas of cooperation including human development and human rights, stability and security, particularly in Mindanao, should be developed.

1.3.2. Modifications to the NIP 2002 -2004

The conclusions of the MTR were reflected in the following modifications to the NIP 2002-2004:

- The goal of consolidating rural development activities will no longer be pursued

- Medium to long term interventions to combat terrorism, improve security and stability and to improve good governance will be introduced. An allocation of € 11-13 million is envisaged. During 2003, two projects were approved under Good Governance to improve access to justice and the fight against corruption. Activities focusing on the fight against terrorism and money laundering were initiated through RRM, and a possible follow up under a medium to long term programme is under preparation.

- The SWAP on health will be strengthened for greater impact and in response to the decentralization process. An allocation of € 32-34 million is envisaged for this area. However, taking into account the large and complex preparation and time needed for the formulation of a sector wide approach on health, it is envisaged that such a programme should be part of the NIP 2005-2006 instead of the actual revised NIP 2002-2004.

- There should be a larger contribution to TRTA activities. However, following an identification mission in 2003 the initial allocation of € 2 million was increased to € 3-4 million taking account the various components of the TRTA activities and the identified needs of the agencies involved.

Finally, it was concluded that these developments can all be catered for under the existing CSP, but that the NIP should be revised. The CSP therefore remains appropriate.

The revised NIP 2002-2004 is annexed (Annex II)
1.3.3. **New focus on the priorities**

Stronger emphasis should be put on a sector wide approach in Health to contribute to the alleviation of basic needs of the poorest and support the Health Sector Reform Agenda (HSRA) of the government.

With the emergence of global terrorism, restoring peace and security in Muslim Mindanao has become an even bigger challenge within the overall context of the Philippines social and economic development programme. Linking poverty reduction, one of the roots of terrorism and guerrilla activities with disarmament, demobilization, development and partial autonomy for Muslim Mindanao through a sustainable and lasting peace agreement with the MILF, is the best way to set the region on the road to sustainable development.

The government of the Philippines has formally asked the World Bank to consider establishing a Multi Donors Trust Fund for Mindanao. This MDTF will support the peace process between the rebels and the Government. The EC is envisaging to support the trust fund by concentrating the amount of €12 million in the NIP 2005-2006.

However, if the peace process does not materialize, progress is too slow, or the MRDTF does not fully meet EC requirements in terms of objectives and strategy, the full amount foreseen (€ 11-13 million) will be reallocated to the sector wide approach in Health.

1.4. **Consultation**

1.4.1. **Coordination with Member States in Manila**

A first meeting with the Member States’ representatives was held in Manila on 4 July 2003 to discuss the Mid Term Review.

Member States’ representatives fully subscribed to the conclusions of the MTR. They expressed strong interest in further enhancing cooperation in the area of security and stability, with particular reference to the fight against terrorism. Several Member States are already involved in this area through bilateral cooperation actions.

Following the Consultations Group of 6-7 November 2003, a meeting with Member States’ representatives specifically addressed the Multi Donor Trust Fund for Mindanao and the higher emphasis on a sector wide approach in the Health Sector. A meeting with Member States was held on 21 of January 2004. Members States were unanimous in their support for the EC assisting the Mindanao peace process through a contribution to the MRDTF managed by the World Bank provided appropriate conditions would be in place.

They also endorsed the increased emphasis on the sectoral health programme.

The main conclusions of these coordination meetings can be summarized as follows:

- Good Governance should be a priority for EU co-operation (fight against corruption and access to justice as priority areas)
Security and fight against terrorism is a matter of concern where actions should be implemented through border management and terrorist financing/anti-money-laundering as priority areas.

Stronger emphasis on a sector wide approach in Health should contribute to the alleviation of basic needs of the poorest and support the Health Sector Reform Agenda (HSRA) of the Government.

Full support to the EC intention to contribute to the World Bank-led MRDTF for Mindanao provided appropriate conditions will be established.

Minutes of the meeting of 21 January are annexed (annex 5.5).

1.4.2 Dialogue with the Government of the Philippines

The dialogue with the Government of the Philippines is a continuous process with regular coordination meetings taking place with the Department of Foreign Affairs (DFA) and with the National Economic Development Authority (NEDA).

Meetings with DFA were held on 29 October 2003 (general) and 4 December 2003 (focusing on terrorism issues). Meetings with NEDA took place on 12 June 2003 and 3 December 2003 to discuss the MTR. On 29 January 2004 the revised NIP 2002-2004 and the NIP 2005-2006 was discussed in detail.

The following conclusions were reached:

- Combating terrorism remains a priority for the GoP

- Negotiating a peace agreement with the MILF and the NPA remains a top priority for the GoP. Establishing a Multi-Donor Trust Fund for Mindanao is an important component of this process but alternative options to give support to Mindanao should not be ruled out ex-ante.

- Implementing the Health Sector Reform Agenda continues to be one of the major policy initiatives of the GOP in its efforts to reduce poverty.

The above is in line with GOP’s identified priorities as presented during the CG meeting on 6-7 November 2003.

1.4.3 Consultation with Civil Society

Consultation with civil society is a continuous process with regular meetings with various NGOs. The most recent meeting was held on 26 January 2004. Many civil society representatives continue to express their concerns about human rights violations in general and the existence of death penalty in particular. They also continue to express concern about the effectiveness and impartiality of the judicial system, and the general bad records on the rampant corruption in both public and private sectors. NGO representatives want to strengthen coordination with donors with the aim to jointly press with GoP national and international concerns about corruption, the rule of law and human rights.
NGO representatives continue to urge donors to concentrate on empowerment of individuals, communities, indigenous people, local government units and lobby groups, through capacity building efforts and support to protect the environment. Overall, representatives to this meeting agreed with the proposed approach by the EC and suggested further involvement of civil society in the implementation of these projects.

2. SUMMARY OF THE NIP 2005-2006

Based on the CSP, the MTR findings, the renewed focus on Mindanao and the dialogue with stakeholders and other donors, it was decided that the NIP 2005-2006 would concentrate on focal area 1 of the Country Strategy Paper – Assistance to poorest sectors of society through two actions: Support to the Health Sector Support Programme, and Support to MRDTF. Focal area 2 (Assistance to Trade and Investment) is already taken in the previous NIP, and actions are under preparation for the SPF and TRTA.

Since the € 3.4 million Trade Support Programme was identified in October 2003 and will be implemented in the next four years, no specific action has been foreseen in the TRTA field. However, it is foreseen that a proper needs assessment in this field will be carried out in the period of implementation of the NIP 2005-2006 focussing in particular on post-Doha issues and the fulfilment of the Philippines’s WTO commitments. This will provide an input for the formulation of the next CSP 2007-2011;

The overall objective of the NIP 2005-2006 is to reduce poverty by improving the health status of the population through more effective, efficient and equitable health care and risk pooling and to contribute to the reconstruction and development of conflict-affected areas in Mindanao.

The intervention to the Health sector is consistent with poverty reduction strategies of the Philippines under its Medium-Term Development Plan. It is in complete synergy with the Government objectives in the health sector and more specifically with its national Health Sector Reform Agenda (HSRA) which should contribute to the alleviation of basic needs of the poorest. It is also in line with recent EC development policy emphasising the use of sector-wide approaches.

Achieving peace in Mindanao and addressing security concerns more generally would be necessary conditions for enhancing the investment climate and reducing poverty in the Philippines. Since autumn 2003 a momentum seems to have gained in the area of peace and development in Mindanao. At the last Consultative Group Meeting of the donors in the Philippines, donors stressed the need to move forward towards a peace agreement. Ongoing violence and insecurity impede the inflow of investment and hinder economic growth in this region plagued by high incidences of poverty and low rates of human development indicators. The ongoing conflict in Mindanao undermines the country’s pursuit of achieving the Millennium Development Goals. It also hampers the effectiveness of ODA-financed interventions in Mindanao. The EC and other donors have engaged in a continuous dialogue on Mindanao with the Government and other stakeholders as appropriate through the Mindanao Working Group.

The actions envisaged are based on the following principles recommended by the MTR:
-geographical concentration (Mindanao) and on sector priorities (Health)
-increased cooperation with international agencies
-implementation of new policies (SWAP)
-complementarity with other donors.

The specific objectives of the programmes are:

**Action 1: Support to the Health Sector to support the Health Sector Reform Agenda (HSRA)**

The Health sector is a strategic focal area to carry out poverty alleviating measures. By supporting the implementation of HSRA in one or more convergent sites, the EC will contribute to the development of a more effective, efficient and equitable health system at the local level, which will improve the accessibility of the convergence site population, particularly the poor/indigents, to essential promotive, preventive, curative and rehabilitative health care services. Civil society and Community Based Organisations may be involved for orienting and supporting integrated local health systems.

**Action 2: Contribute to World Bank Multi Donors Trust Fund for Mindanao Reconstruction and Development (MRDTF)**

The key objective of the MRTTF is the reconstruction and development of conflict-affected areas in Mindanao. It aims to identify programmes and projects that can be implemented to realise the mentioned key objective. The sector priority areas that would possibly be covered are:
(a) Governance and institutions, with the establishment or reinforcement of public administration and training of local government personnel, justice and the rule of law, community recovery, role of civil society,
(b) Economic status and livelihood requirements, development of agricultural and fisheries sector, environment and natural resource, agrarian reform, ancestral domain, basic socio-economic services
(c) Social services, development of education, health and sanitation systems, social safeguards
(d) Infrastructure, construction of roads and bridges, telecommunications, sea ports and airports,
(e) Finances and private sector, development of financial sector and enhancing the establishment of small and micro-enterprises, financial intermediation.
(f) Security concern and psycho-social issues with regard to disarmament and demobilisation.
3. Indicative budget NIP 2005-2006 planned

Budgetary Allocations 2005-2006 NIP

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<th>Full-back scenario</th>
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<td>Action 2: Mindanao Donors Trust Fund or support to Health sector if MDTF action cannot be materialised</td>
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<td><strong>Total Allocations 2005-2006</strong></td>
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4. PRIORITIES AND ACTIONS

4.1. HEALTH SECTOR PROGRAMME FOR HEALTH SECTOR REFORM AGENDA

4.1.1. Strategy Context/Justification

The health of the Philippine population has improved significantly over the last 50 years. However, many challenges still remain for the health sector to affect further health gains. In 1999, the Government of the Philippines designed an ambitious agenda for health sector reforms. The Health Sector Reform Agenda (HSRA) describes major strategies, organisational and policy changes and public investments required to improve the way health care is delivered, regulated, and financed.

Five major reforms stipulated in the HSRA seek to undertake the following: (i) Secure funding for priority public health programmes; (ii) Promote the development of local health systems and ensure its effective performance; (iii) Convert Government hospitals into fiscally autonomous entities and develop the Philippines hospital system with the private sector; (iv) Strengthen the capacities of health regulatory agencies; (v) Expand the coverage of the National Health Insurance Programme (NHIP). These five reform areas are highly interdependent, complementary and therefore expected to be implemented as a package.

Since 2000, the Government of the Philippines as well as donors such as the World Bank, ADB, GTZ, JICA have assisted financially (grants and loans) and technically (technical assistance, supply of equipment) the implementation of the Health Sector Reform Agenda.

From 2000 until 2003, the Government of the Philippines and the donor community worked under a strategy of a “project-based approach” in the framework of the implementation of the HSRA.
After three years of experience the Department of Health of the Philippines realised that to achieve consistency and coherence in the national health policies, guidelines and procedures, as well as in the budgeting and spending for health programmes and projects, the strategy of implementation of the HSRA needs to be changed: Rationalising the allocation and the use of resources for health in adopting a sector-wide approach, explicitly acknowledging the EU sector programme. This is in perfect line with the country strategy where “EC support to basic social services, health or education shall be explored” was mentioned and where the exploration of a sector-wide approach was requested.

4.1.2. Actions

4.1.2.1. Objectives

The global objective is to reduce poverty by improving the health status of the population through more effective, efficient and equitable health care and risk pooling.

The programme purpose is:

- To ensure access to improved quality public health programmes and other essential preventive and curative health services by a larger number of poor people and decreasing the cost for health services for individual families.

- To contribute to the implementation of the government’s Health Sector Reform Agenda by supporting some interventions that are consistent with poverty alleviation strategies, including sound population management.

4.1.2.2. Expected results

- National health insurance scheme (NHIS): an increase in the number of NIHS beneficiaries and an increase in the enrolment of new beneficiaries under the indigents programme.
- Local health system: a health strategy at the district level, which includes an improved health referral system and improved local health systems in the supported convergence sites.
- National health programme: improvements in the national health promotion and disease prevention interventions.
- Hospital autonomy: hospital financial and managerial autonomy at the provincial and district level and progressive reduction of the subsidy given by DOH to public hospitals.
- Improved implementation capabilities of national and local public health offices.
- Reinforced Government-led donor coordination
- Improved Capacity of local governments to finance and deliver health services

By adopting such a development strategy; the HSRA will improve the health status of the target population through greater and more effective coverage of national and local public health programmes; increase access to health services especially by the poor; and reduce financial burden on individual families.
4.1.2.3. Activities

The main activities are:

1. To assist the Government in improving its donor co-ordination;
2. To participate in policy dialogue (including the assessment of HSRA) with the Government and the donor community;
3. To help develop DOH’s capacities in establishing and managing a sector wide approach in the health sector;
4. To assist DOH in the reform of their public health programmes;
5. To support DOH and the Department of Budget and Management (DBM) in the analysis of aspects relating to the financing and budgeting of health services by national government and local government units, in the definition of measures and tools to be developed in that respect and, to a certain extent, their implementation;
6. To provide technical support to Philhealth in order to increase their share of health expenses, in particular by including more poor people in their scheme;
7. To assist selected convergence sites in the implementation of the HSRA;
8. To strengthen capacities of local government units and Inter Local Health Zones (ILHZ) as local health service providers and to improve revenue collection as well as the efficiency and effectiveness of public finance management.

4.1.2.4. Implementation

Following the strategy of implementation of a sectoral programme, the programme will be carried out in various distinct phases.

The type of support proposed could consist of sector budgetary support or other means of funding such as a pool funding, use of EC procedures and in addition, international and local technical assistance in the health sector for up to € 32 -34 million at central and LGUs levels.

A Sector Wide approach is in line with EC policy on Health. However, in the case where necessary conditions to the realization of the proposed approach would not yet be fully in place, an EU Sector Reform Agenda Policy Support project “towards a SWAP” could be envisaged, paving the ground for a full–pledged Sector Policy Support Programme SPSP at a later stage. The idea clearly is to work towards a multi-donor Sector Programme.

A Public Finance Diagnostic Mission via sector budgetary support should be foreseen to explore the possibility of delivering the programme via budgetary support, or pool funding mechanisms, or contribution agreements with other institutions.

4.1.2.5. Cross-cutting issues

The envisaged intervention is expected to have significant impacts on several development/cross-cutting objectives that address the poverty issue of the country. The poverty situation in the Philippines, although it has improved during the last 14 years, remains problematic as compared with its Southeast Asian neighbors (Thailand, Malaysia and Indonesia). In 2003, more than one-third of the country’s population was living below the poverty line. Nearly 16 million Filipinos are considered being core poor (indigents): they have no sufficient incomes for food requirements, and barely any means to access any
basic social services, such as for health and education. Since it is envisaged that the project will be implemented in one or more CS, it should contribute to the development of a more effective, efficient and equitable health system at the local level, which will improve the accessibility of the convergence site population. Civil Society and Community Based Organisation (CBO) will be involved for orienting and supporting integrated local health systems, public health programmes and the social health insurance to benefit the indigents. Planning and management capacities of the central and local governments will be strengthened and co-operation between politicians, administrators and civil society will be enhanced in the provinces supported by EC intervention. This support is thus expected to lead to greater accountability of the public sector and local governments as well as to improve more participatory governance practices. Gender issues are included in relation to population issues, birth control and women’s health issues. An evaluation on Gender was done in the Philippines in 2002 and the final assessment will be taken into account as well as the lessons learnt from the just completed EC project on women’s health and safe motherhood. The formulation mission is also expected to give more guidance on how to adequately integrate those issues taking into account the evaluation on Gender done in the Philippines in 2002, as well as environmental concerns.

4.1.2.6. Risks and condition

The presidential elections in 2004 could lead to changes amongst high ranking civil servants within the Department of Health at central level. This could lead to new developments in the implementation strategy of the HSRA. Continuous dialogue between the EC and the DOH will try to minimize any risks resulting thereof.

The major conditions for approval of a sector programme are:

- A nationally owned Health sector Reform Programme is in place
- A mid-term expenditure framework is in place (MTEF)
- The National Government of the Philippines needs to increase its budgetary allocation of funding in the health sector for the next five years.

4.1.2.7. Main indicators

The main performance indicators of the sector programme respect the SMART principles, in being Specific, Measurable, Affordable, Relevant and Time-bound. They do cover the necessary requirements both for short-term management information (data on inputs and outputs) and for performance measurement (outcomes and impacts). Where appropriate, the indicators will be measured so as to account for gender disparities. In the Philippines, the national indicators follow the Millennium Development Goals. The main indicators in health are:

- Under five mortality rate
- Infant mortality rate
- Proportion of 1 year old children immunized against measles
- HIV prevalence among 15-24 year old pregnant women
- Number of tuberculosis cases detected and proportion -cured under the Directly Observed Treatment short course (D.O.T.S.)
- Budget increase by GOP and/or selected provincial/local governments to health sector (possibly for tranche release if budgetary support is given)
- Number of major donors participating in Sector Programme and amounts of money allocated/spent by donors of health through the Sector Programme
- Number of poor people covered by health insurance schemes
- Number of hospitals having effective cost recovery scheme
- Proportion of births attended by skilled health personnel
- Type and number of agreements for implementation of HSRA concluded between provincial and municipal actors at convergence site level

4.1.2.8. Estimated EC contribution

The estimated EC contribution is €32 to 34 million

4.1.2.9. Co-ordination with Member States and other donors

Coherence between the proposed EC programme and other donor-supported actions in the health sector has been achieved through monthly consultative meetings between the donors and NGO representatives. In addition, GTZ will provide an expert for the formulation mission. The sector-wide approach requires very intensive government-led cooperation between the various donors, which has been strengthened by the identification process for this action.

4.1.2.10. Indicative timeframe

The programme will have a five year implementation period. Commission decision will most likely be taken in 2005.

4.2. Support to Multi Donor Trust Fund for Mindanao

The issue of restoring peace and security in Mindanao has become a key challenge to the Philippines. Development cooperation needs to address the root causes of terrorism and assist the government in providing the people living in Mindanao with a true socio-economic perspective linking disarmament, demobilization with development issues. At the same time, the Philippine economy must strive to promote its attractiveness as a destination for foreign direct investment.

The Filipino government has formally asked the World Bank to consider establishing a Multi-Donor Trust Fund for Mindanao to which the World Bank has agreed. The European Commission and most of the Member States present in the Philippines have expressed their intention to contribute towards this Trust Fund should it be established under appropriate conditions. In fact, the Commission is already making arrangements for its participation in the Joint Needs Assessment for the establishment of the Trust Fund through the provision of experts.

Participation in the Trust Fund on Mindanao respond to the priorities that were set out in the Country strategy paper on the Philippines providing support to the most vulnerable sectors of society and in particular on stability and security issues in Mindanao.
Since the establishment of the MRDTF is conditional upon the signing of a peace agreement between the Government and the MILF, it therefore follows that the EC cannot at this stage, assume that contributions to the Donor Trust Fund will in any case materialize. Hence the necessity to look into a “hedging option”, (scenario 2) for alternative use of the funds and to channel the available funds (€11-13 million) into a further increase of the health sector support programme.

The NIP 2005-2006 foresees two alternative scenarios: The preferred option (scenario 1) would be to allocate the foreseen funds 12 million to the MRDTF. If conditions do however not allow for this option then scenario 2 would take place and this would mean that the funds would be allocated to the health sector support programme finance activities in this area.

The proposed allocation of the funds is in line with the EC policy of focusing the interventions on concentration and number of actions, of working with other multilateral institutions and the donor community and of supporting sector-wide approaches.

On the other hand, the Mindanao Donor Trust Fund would have a cross-sectoral focus with a comprehensive perspective. Moreover, in both of the envisaged actions the government is clearly in the driving seat while participation of stakeholders will be an integral feature of these actions.

4.2.1. Strategy Context/Justification

Following the signing of a bilateral cease-fire agreement between the Government of the Philippines (GOP) and the Moro Islamic Liberation Front (MILF) last 19 July 2003, the anticipated resumption of the peace negotiations is expected to result in a formal peace agreement. A cease-fire agreement has been maintained for months now, and is evidently affecting goodwill on both parties. The GoP asserted that it is now prepared to deal with the various issues raised by the MILF, as this will be the first agenda point when formal peace talks resume.

The GoP specifically convened a special panel, which is tasked with facilitating the formal peace talk. Furthermore, a third party monitoring team, which consists mainly of members of the Organisation of Islamic Countries (OIC) headed by Malaysia, will assist the Philippines in overseeing the cease-fire agreement. The resumption of formal peace talks would be signaled by a preliminary talk between the two parties which is foreseen to transpire shortly. Initial informal talks have been held.

Although the political aspects of the peace process will take time to be fully implemented, it is imperative that the socio-economic concerns of the MILF combatants and conflict-affected communities be addressed as soon as possible. Addressing these concerns effectively would provide a critical confidence- and sustainable peace-building measure within Mindanao and the country as a whole.

To pave the way for successful talks, the GoP formally requested the World Bank to explore with other donors the establishment of a MRDTF (Mindanao Reconstruction and Development Trust Fund). Working groups involving the EC and other donors have been established.
Following EC-World Bank discussions both in Manila and Brussels, the EC concluded that it should provide support to the multi-donor trust fund which would clearly reflect its political commitment to the peace process in Mindanao.

Participation in the MRDTF is in line with the priority areas defined in the CSP of 7 March 2002. The CSP identified as a key area dealing with the humanitarian consequences of armed conflict.

4.2.2. Actions

4.2.2.1. Objectives

The key objective of the MRDTF is the reconstruction and development of conflict-affected areas¹ in Mindanao. It aims to identify and cost programmes and projects that can be implemented to meet MRDTF’s key objective. The sector priority areas that would be covered are:

(a) **Governance and institutions**: establishment or reinforcement of public administration and training of local government personnel, justice and the rule of law, community recovery, role of civil society.

(b) **Economic status and livelihood requirements**: development of the agricultural and fisheries sector, environment and natural resources; agrarian reform, ancestral domain, basic socio-economic services.

(c) **Social services**: development of the education, health and sanitation systems, social safeguards.

(d) **Infrastructure**: construction of roads and bridges, telecommunications, sea ports and airports, energy.

(e) **Finance and private sector**: development of the financial sector and enhancing the establishment of small and micro-enterprises; financial intermediation.

It is also foreseen that security sector and psycho-social concerns/issues will be addressed in particular on policing, disarmament and demobilization. Like other donors, the EC has insisted on the link between these issues and developmental issues.

4.2.2.2. Expected results

The MRDTF envisages the creation of a socio-economic environment which would foster sustainable peace in Mindanao and pave the road for sustainable development in the poorest region of the country.

¹ A “conflict-affected community” is usually defined as a community suffering from (a) heightened insecurity and violence, (b) presence of dysfunctional distrust and fragmentation, (c) weak governance and rule of law and (d) severe economic disruption. However, a clear definition of what constitutes a conflict-affected community will be rendered after the appraisal phase.
4.2.2.3. Activities

Since the MRDTF is a multi-donor trust fund which will be managed by the World Bank, a Joint Needs Assessment (JNA) mission will take place in the first quarter of 2004 which will aim to identify the specific sectors that need to be addressed and the resulting activities to be implemented. The EC as well as other donors, including some Member States, is taking steps to provide support in kind to this mission.\(^2\)

4.2.2.4. Implementation

The implementation of the MRDTF will be entrusted to the World Bank. Donor participants in the trust fund will be represented in a joint steering committee that will set the policy and the priorities of the MRDTF. Further details of the implementation arrangements are subject to discussions and negotiations with other donors and the government.

The EC contribution would take the form of grants which will be released gradually into the trust fund.

4.2.2.5. Cross-cutting issues

The MRDTF would adequately address the cross-cutting themes of human rights, gender, environment and migration in the mentioned areas under point 4.2.2.1. Specific experts for these cross-cutting issues will take part in the JNA.

4.2.2.6. Risks and conditions

The MRDTF is conditional upon the successful outcome of the peace negotiations between the MILF and the GOP. A commitment by the EC towards the MRDTF would be conditional to the concluding of a peace agreement between the government and the MILF.

There is a risk that non conflict areas could be disenfranchised. A further risk is the security situation in the area making travel for international experts sometimes impossible. There is also the risk of political maneuvering by the involved parties in view of the upcoming elections. The World Bank is well aware of those risks and is taking appropriate measures. Common positions taken by the donor community should allow putting substantial pressure on the involved parties to keep on track.

Since the signing of the ceasefire agreement, both parties have, in general, respected the terms of the agreement. No large-scale hostilities between the Armed Forces of the Philippines (AFP) and the MILF have taken place, but it is difficult to predict when formal negotiations will commence and what the likely outcome will be.

Another risk from the EC perspective is limited visibility for the EC when contributing to a trust fund administered by the World Bank. On the one hand, the EC will monitor that EC visibility guidelines will be strictly adhered to. On the other hand, EC will request to participate in an equal footing with the World Bank in policy dialogue through

\(^2\) In the case of some donors, support may also be given through a financial contribution.
appropriate representation in the project steering committee and through enhanced coordination with Member States and other donors on the Trust Fund.

4.2.2.7. Main indicators

Indicators will be established by the JNA but a few preliminary indicators could be as follows:

- Peace agreement respected by both government and MILF
- Poverty rate reduced in conflict affected areas in Mindanao
- Child mortality and other health-related indicators significantly improved in conflict affected areas
- School enrolment rate and other health-related indicators significantly improved in conflict affected areas
- Community participation significantly increased in conflict affected areas
- Income generating possibilities significantly improved in conflict affected areas

4.2.2.8. Estimated EC contribution

The estimated contribution is € 11 to 13 million.

4.2.2.9. Co-ordination with Member States and other donors

Co-ordination with Member States takes place in Manila in the regular development counselors’ meeting and the JNA was also discussed in the meeting with the Member States on 4 December 2003. A general co-ordination meeting between the donors in Manila took place on 24 November 2003. The majority of the donors were supportive of the initiative albeit most of them did not make any formal commitments at this stage pending the outcome of the joint needs assessment (see Indicative Timeframe) and the effective start of the peace negotiations. The Commission intends to enhance donor coordination among Member States and with other donors.

4.2.2.10 Indicative timeframe

It is envisaged that formal peace talks will start in the first quarter of 2004 in Kuala Lumpur. In order to prepare the establishment of the MRDTF, the Joint Needs Assessment exercise will start in January/February 2004. That will take two to three months. Following the needs assessment, the formal establishment of the MRDTF is expected to take place sometime in 2004 or possibly early 2005. Commitment of the Commission would take place as soon as possible after the establishment of the trust fund. The release of funds into the MRDTF is conditional upon the outcome of the peace talks and the formal signing of the peace agreement. In case the trust fund will not be established, or judged not to meet EC requirements, the consequences will be that the funds would be allocated to the health sector programme in addition of the funds currently allocated to this programme in the NIP 2005-2006.
5.1. Summary of the Country Strategy Paper

Objectives of the Philippines Country Strategy Paper

The EC-Philippines Country Strategy Paper takes into account the goals of EU's co-operation, the Philippines policy agenda, the country analysis, as well as past and ongoing co-operation experience. The CSP states that the overarching objective of EC co-operation will be to support the sustainable economic, social and environmental development of the Philippines. The main areas of concentration for the co-operation will be assistance to the poorest sectors of society and to facilitate the integration of the Philippines in the flow of international trade.

Summary of the Strategy and Priorities:

Focal point 1: Assistance to the poorest sectors of society comprises the consolidation and replication of rural development know-how and EC support to a sector health programme;

Focal point 2: Assistance to trade and investment, in view to facilitate the integration of the Philippines in the world trade flows, comprises trade sector policy formulation and institutional reform; and higher-education co-operation in European studies.

Specific co-operation in Good Governance, a cross-cutting theme, is proposed in support of both, focal point 1 and 2.

In accordance with the Country Strategy Paper, the focus of the National Indicative Programme NIP 2002-2004 is on:

Assistance to the poorest sector of the society (rural development € 22 million and Health sector support € 20 million) for a total of € 42 million

Assistance to Trade and Investment (Business climate enhancement – Global economy, European studies (€ 3 million)
Good Governance (support decentralisation through institutional strengthening at local level, support to fight against corruption, promote enhancement of the judicial and improve corporate governance (€ 6 million)

Total 2002-2004: € 51 million (the amount have been reduced, following the MTR to € 18 million, and the remaining budget, have been reprogrammed in the NIP 2005-6)
## Modifications to the 2002-2004 NIP

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<th>Mid-Term Review version</th>
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## ANNEX 5.3

### NGO co-financing projects (B7-6000)

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<tbody>
<tr>
<td>1 Family Education &amp; Community Development Programme in Palawan</td>
<td>July 2000-Dec 2003 (rqst for ext.)</td>
<td>396,949</td>
<td>176,031</td>
<td>Deutsche Welt.</td>
<td>Palawan</td>
</tr>
<tr>
<td>2 Candijay Family-Based Integrated Rural Development Project</td>
<td>2001-2005</td>
<td>223,979</td>
<td>223,979</td>
<td>KKS</td>
<td>Bohol</td>
</tr>
<tr>
<td>3 Habitat Community Partnership Program</td>
<td>Aug 2001-July 2004</td>
<td>999,736</td>
<td>412,174</td>
<td>KATE</td>
<td>Tagbilaran, Iligan, Mandaluyong</td>
</tr>
<tr>
<td>5 Facilitating Justice for Children</td>
<td>April 2002-April 2005</td>
<td>410,668</td>
<td>136,890</td>
<td>Save the Children Foundation</td>
<td>Cebu, Davao, Aurora, Pagadian</td>
</tr>
<tr>
<td>6 Western Batangas Agrarian Reform Communities Support Project</td>
<td>April 2001-April 2004</td>
<td>950,576</td>
<td>333,987</td>
<td>ICCO</td>
<td>Batangas</td>
</tr>
<tr>
<td>7 Fair Trade Assistance to Community Enterprises</td>
<td>April 2001-April 2005</td>
<td>766,497</td>
<td>255,498</td>
<td>Traidcraft Exchange</td>
<td>LuzViMin Regions</td>
</tr>
<tr>
<td>8 Project d’ Appui Families en Grandes Difficultes dans les Bidonvilles de Manille</td>
<td>Sept 2001-Sept 2006</td>
<td>809,333</td>
<td>297,778</td>
<td>ASMAE &amp; Interaide</td>
<td>Manila</td>
</tr>
<tr>
<td>9 Capacity Building Program for Civil Society &amp; LGUs to Prevent Child &amp; Woman Trafficking in Visayas &amp; Mindanao Regions.</td>
<td>2003 – 2007</td>
<td>610,612</td>
<td>203,540</td>
<td>KKS</td>
<td>Cebu, Leyte, Bohol, Samar, Davao, Butuan, Cgy de Oro, Zamboanga</td>
</tr>
</tbody>
</table>

**TOTAL EC:** 6,581,091
## 5.3. Internally displaced – uprooted people/refugee projects (B7-302)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Duration</th>
<th>EC € Contribution</th>
<th>NGO € Contribution (at least 10%)</th>
<th>European NGO</th>
<th>Target Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Assistance to improve the living conditions for the war-affected families in Lanao del Sur and Maguindanao.</td>
<td>Sept 2002- Feb 2004 (extended)</td>
<td>800,000</td>
<td>90,000</td>
<td>ACH</td>
<td>Lanao del Sur &amp; Maguindanao</td>
</tr>
<tr>
<td>3 Consolidation of the socio-economic integration process of marginally internally displaced farmers in Lanao del Norte</td>
<td>July 2002- July 2004</td>
<td>1,200,000</td>
<td>220,000</td>
<td>Movimondo</td>
<td>Lanao del Norte</td>
</tr>
<tr>
<td>4 Support for the consolidation of the local capacities of the population in conflict affected areas of Lanao del Sur and Maguindanao.</td>
<td>Oct 2003- Sept 2004</td>
<td>600,000</td>
<td>70,000</td>
<td>ACH</td>
<td>Lanao del Sur &amp; Maguindanao</td>
</tr>
<tr>
<td>6 Supporting and Rehabilitating IDPs and Communities in Southern Philippines.</td>
<td>Jan 2004- July 2005</td>
<td>3,000,000</td>
<td>Spain-.90 M NL -.83 M Aus - 8.40 M NZ -.02 M</td>
<td>UNDP (Int’l.Orgn.)</td>
<td>Cotabato, Davao del Sur, Saranggani , South Cotabato, Sultan Kudarat, Maguindanao, Lanao del Sur, Zam del Sur/Norte, Zam Sibuguey, Sulu, Basilan, Tawi-Tawi, Palawan</td>
</tr>
</tbody>
</table>

**Total EC:**
7,465,952
### 5.3 Human rights projects (B7-702)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Duration</th>
<th>EC Contribution</th>
<th>NGO Contribution</th>
<th>Local NGO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Strengthening the abolition of the Death Penalty Campaign by information drive.</td>
<td>Dec 2002-Dec 2005</td>
<td>300,000</td>
<td>Philrights</td>
<td></td>
</tr>
</tbody>
</table>

### 5.3 Tropical forest projects (B7-6200)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Duration</th>
<th>EC Contribution</th>
<th>NGO Contribution</th>
<th>Target Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Mt. Isarog Integrated Conservation &amp; Development.</td>
<td>2000-2004</td>
<td>978,547</td>
<td>280,000</td>
<td>Bicol</td>
</tr>
<tr>
<td>2 Integrating forest conservation with local governance in the Philippines.</td>
<td>2001-2004</td>
<td>1,268,014</td>
<td>320,000</td>
<td>Mindoro, Antique, Central Cordillera, Northern Mindanao</td>
</tr>
</tbody>
</table>

Total EC: 2,246,561

### 5.3 Echo projects (B7-210)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Duration</th>
<th>EC Contribution (100%)</th>
<th>NGO Contribution</th>
<th>European NGO</th>
<th>Target Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Strengthening the Disaster Management Capabilities of Communities Vulnerable to Disasters in the Philippines, Phase II. (DIPECHO Programme)</td>
<td>April 2003 – April 2004</td>
<td>350,000</td>
<td>Spanish Red Cross</td>
<td>Quirino, Quezon, Antique, Camarines Sur</td>
<td></td>
</tr>
<tr>
<td>2 Humanitarian Protection in Mindanao</td>
<td>To start in 2004</td>
<td>500,000</td>
<td>Oxfam, ACH, Movimondo</td>
<td>Mindanao</td>
<td></td>
</tr>
</tbody>
</table>

Total EC: 850,000
## 5.4 DONORS MATRIX

Mapping of Major Multilateral and Bilateral Donor Programs (2002-2006) (Table I), As of February 2004

<table>
<thead>
<tr>
<th>Sector / Donor *</th>
<th>EU Member States</th>
<th>Japan</th>
<th>USA</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health</strong></td>
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<tr>
<td>1/ Spain:</td>
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<tr>
<td>• National Eye Referral Center (12/01-6/04; 2.25M€);</td>
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<tr>
<td>• Reproductive Health Project in Maguindanao (1999-2004; 2.62 M€);</td>
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<tr>
<td>• Upgrading of Zamboanga City Medical Center and Zamboanga Del Sur Provincial Hospital (2002-2004; 7.16 M€);</td>
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<tr>
<td>• Soft loan of 12.33 M€ for the upgrading of 21 hospitals (loan signed in 2003).</td>
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<tr>
<td>2/ Germany:</td>
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</tr>
<tr>
<td>• KfW projects: (i) Family Planning and HIV/AIDS Prevention Project II (2000-2004; 12.18M€) and phase III (2000-2004; 10.3M€); (ii) Support to the Health Sector Programme; (iii) Cold Chain Equipment Project (12/01-6/04); (iv) Drug provision and procurement (FAMUS II).</td>
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<tr>
<td>• GTZ projects: Unified Support to the Philippine Health Sector (2001-2004), 5.75 M€;</td>
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<tr>
<td>3/ Belgium contributes to the health sector through the Integrated Agrarian Reform Support Programme II (started September 2003; 1.24 M€).</td>
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<tr>
<td>4/ Austria plans to provide a soft loan for the Restoration of the Lung Centre of the Philippines and envisages support to hospital development projects.</td>
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<tr>
<td>5/ The Netherlands will start supporting the Development of Sub-specialty Capabilities in Heart, Lung, Kidney.</td>
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<tr>
<td>1/ Expert Team Dispatch for the Phil Pharmacopeia Project (3/99-2/04; 0.4 M€).</td>
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<tr>
<td>2/ Measles Control Project (3/03-3/04; 6.17 M€).</td>
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<tr>
<td>3/ Community Health Development Project (10/01-03/04; 0.03 M€).</td>
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<tr>
<td>4/ Through JBIC, Health component of the Catubig Agricultural Advancement Project (up to 2008; 0.04 M€).</td>
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<tr>
<td>5/ Preparation of a Health Sector Reform Project.</td>
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<tr>
<td>6/ JICA also prepares to start several interventions including health facility construction (outpatient department of Caraga Regional Hospital).</td>
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<tr>
<td>7/ Construction of the Philippines Blood Transfusion Centre.</td>
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<tr>
<td>8/ Strengthening of Central Laboratory Facilities.</td>
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<tr>
<td>9/ Strengthening of the Food and Drug Control Laboratory.</td>
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<tr>
<td>10/ Technical cooperation on the Third Country Training Programme.</td>
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<tr>
<td>11/ Establishment of a Bio-Safety Laboratory.</td>
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<tr>
<td>12/ Provision of Medical Equipment for Barangay Health Centers and Rural Health Stations.</td>
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</tr>
</tbody>
</table>

Agusan del Sur Malaria Control and Prevention Project (6/01-7/04; 2.44 M€).
### Economic Cooperation and TRTA

1/ Germany:
- GTZ: SME promotion programme (o);
- Support to International Trade and Foreign Direct Investment (Sector Project, p);
- Expansion of Dual Training and Education (EDET) Project, 1996-2008, 7.5 M€;
- Credit line for Micro and Small Enterprises (o),
- SME Credit Program under appraisal (Feb 2004);
- Vocational training support programme (o);
- JICA training on SPS, 2004 and support to the implementation of the Bureau of Customs’ Modernisation Framework (BoC), approx 8 M€.
- Cebu Socio-Economic Empowerment and Development (SEED) Project (1999-2004);
- Technology Development for Electronic Navigational Chart (2002-2005);
- Credit line for Micro and Small Enterprises (o),
- SME Credit Program under appraisal (Feb 2004);
- Vocational training support programme (o);
- 2/ ASEM TF 2 (2001-2005), 32 M€ (contributors include EU Member States, EC as well as China and Korea)

2/ ASEM TF 2 (2001-2005), 32 M€ (contributors include EU Member States, EC as well as China and Korea)
- JICA training on SPS, 2004 and support to the implementation of the Bureau of Customs’ Modernisation Framework (BoC), approx 8 M€.
- Cebu Socio-Economic Empowerment and Development (SEED) Project (1999-2004);
- Technology Development for Electronic Navigational Chart (2002-2005);
- Credit line for Micro and Small Enterprises (o),
- SME Credit Program under appraisal (Feb 2004);
- Vocational training support programme (o);
- 2/ ASEM TF 2 (2001-2005), 32 M€ (contributors include EU Member States, EC as well as China and Korea)

### Good Governance

1/ Germany (GTZ):
- Strengthening Decentralized Development Planning Structures in the Visayas Region (o);
- Strengthening of planning capability of NEDA (o);
- Support to Local Government Units in Mindanao (p).

2/ Sweden: GIS Cookbook for local Government Units (0.33 M€, p)

### Small projects and NGO co-financing

1/ Belgium finances NGO projects for above 2 M€ per annum (2.4 M€ in 2003) (o).
2/ Finland finances around 10 micro projects per year for approx 0.2 M€ (o).
3/ The Netherlands have a large NGO co-financing programme of 9.09 M€, out of which 3.77 M€ were committed in 2003 (o).
4/ The UK have a small project scheme financing annually about 8 projects for a total amount of 0.3 M€.
5/ Cooperacion Espanola and NGOs in the Philippines Programme; (3.63 M€ in 2003).

The Embassy is managing a grass-root project scheme, financing mainly NGOs and local governments in social sectors. Individual projects can go up to 100,000 € and there is no specific country allocation. (o&p)

* O= ongoing and P= planned

NB1: Where available, amounts have been indicated;

NB2: The following exchange rates have been used: 1 US $ = 0.8 € = 50 Pesos ; 1 Canadian $ = 0.6 €; 1 Aus $ = 0.61 €; 100 ¥ = 0.75 €; 1 UK £ = 1.5 €, 1 € = 60 Pesos
### Mapping of Major Multilateral and Bilateral Donor Programs (2002-2006) (Table II), As of February 2004

<table>
<thead>
<tr>
<th>Sector / Donor*</th>
<th>Canada</th>
<th>World Bank</th>
<th>Asian Development Bank</th>
<th>UN Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good Governance</td>
<td>Case Administration Management Information System (CAMIS): Court Administrator capacity building and MIS (o) approx. € 183,300.</td>
<td>Judicial Reform Support Project (JRSP), €18.25 M (o).</td>
<td>Strengthening the independence and defining the accountability of the judiciary, (o) €1.08 M</td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>5/ Policy Training and Technical Assistance Facility, Phase 2, 1999-2004, 6 M€.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Small projects and NGO co-financing</strong></td>
<td>Canada Fund for Local Initiatives (CFLI), is funding small projects of up to 15 000 € for an annual amount of 0.6 M€ (o).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Multi-sector</strong></td>
<td>ARMM Social Fund aims to foster sustainable development in the Autonomous Region of Muslim Mindanao, amounting to 40.3 M€</td>
<td></td>
<td>UN Multi-Donor Fund Phase 3 began in 1997 aims to implement through a common post-conflict strategy involving the donor community such as Australia and New Zealand, UN Agencies, Spain, EC, among others.</td>
<td></td>
</tr>
</tbody>
</table>

* O= ongoing and P= planned

NB1: Where available, amounts have been indicated;

NB2: The following exchange rates have been used: 1 US $ = 0.8 € = 50 Pesos ; 1 Canadian $ = 0.6 €; 1 Aus $ = 0.61 €; 100 ¥ = 0.75 €; 1 UK £ = 1.5 €, 1 € = 60 Pesos
### 5.4 Community and Member States’ co-operation with the Philippines – As of July 2003

**Planned disbursements for 2003 (millions €)**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>EC</th>
<th>B</th>
<th>DK</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>I</th>
<th>L</th>
<th>NL</th>
<th>A</th>
<th>P</th>
<th>FI</th>
<th>S</th>
<th>UK</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>7.5</td>
<td>0.8</td>
<td>0.4</td>
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<td>Water supply and sanitation</td>
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<tr>
<td>Government and Civil Society</td>
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<td>4.4</td>
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<td>Transport and storage</td>
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<td>21</td>
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<td>Banking and financial services</td>
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<td>Business/Private sector</td>
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<td>Agriculture, forestry, fishing</td>
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<tr>
<td>Industry, Mining and Construction</td>
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<tr>
<td>Trade and tourism</td>
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<td>Budget support /SAP</td>
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Austria: all loans
Belgium: no 2003 figures available yet
Germany: no figures available before July 2003
EU Development Counsellors Meeting
21 January 2004
11 a.m. –12.30 p.m.
Royal Netherlands Embassy Conference Room

Attendance:

Embassy of Austria - Dr. Wolfgang Harwalik
Embassy of Belgium - Mr. Jeroen Vergeylen
Embassy of Finland - Ms. Mervi Kultamaa
Embassy of Italy - Dr. Martin Brook
Embassy of the Netherlands - Mr. Jan Willem Cools
Mr. Ariel I. Jayme
Embassy of Portugal - Ms. Isabel M.B. Ferreira
Embassy of Spain - Mr. Alvaro de Salas
Embassy of Sweden - Mr. Ulf Walden
European Commission - Mr. Frank Hess
Ms. Marjo Baayen
Ms. Lourdes Asuncion
Agencia Española de Cooperación Internacional - Mr. Jose Maria Taberne

Not present:

Embassy of the Czech Republic, Embassy of France, Embassy of Germany, Embassy of the United Kingdom

EXTRACTS of the agenda concerning NIP preparation:

1. EC National Indicative Programme (NIP):

The EC presented the NIP for the DC’s information.

The revised NIP 2002-2004 was reduced from € 51 million to € 18 million. For the new NIP 2005-2006, €45 million has been allocated. Two scenarios were planned; the scenario to be adopted depends on whether the Mindanao Rehabilitation Trust Fund pushes through and whether it fits with EC development policy:

Scenario 1: €32-34 million for the Health Sector Wide Program
€11-13 million for the Mindanao Rehab Trust Fund

Scenario 2: €45 million for the Health Sector Wide Program

The NIP will be discussed on week 5 with NEDA and on 26 January 2004 with civil society organisations.

Copies of the NIP presentation to the member states are attached to these meetings.
It was proposed that the Sector Wide Approach be made a topic for separate discussion by the DC in the future.

2. Possible issues for future discussion/action:

Aside from the proposed topics mentioned in Item 7 of the agenda, the sharing of success stories was proposed to be included.

3. Other matters

The EC invited the DC to attend the PHN Donors’ meeting on 3 February 2004, 9-11 a.m. at the EC. The EC Health Sector Wide Program will be presented by the Delegation.

9. The meeting ended at 12.30 p.m.

Actions:

2. Attached up-dated Directory of Development Counsellors, please check information)
3. EC to prepare new format for EU annual report tables.
4. EC to organise special DC on Sector Wide Approach
5. EC to prepare project/programme format for on-going projects/programmes in greater detail than for EU Annual Report. Presidency will send example of Netherlands bilateral programme to EC for review.