

ANNEX

**MID-TERM REVIEW
MULTI-ANNUAL INDICATIVE PROGRAMME 2011-2013**

THE PHILIPPINES

PHILIPPINES - DRAFT MID TERM REVIEW (MTR)

PART 1 EXECUTIVE SUMMARY

Macroeconomic stability and a sound fiscal policy aimed at reducing the government deficit have been the basis for modest economic growth in recent years. The economy has weathered the global crisis so far, based on continued growth in remittances. The same period has seen an increase in the number of poor, while key social issues, including basic education, reproductive and maternal health and land reform remain inadequately addressed. Internal conflict remains a challenge, although there have been positive developments in the peace process with the Moro Islamic Liberation Front. Extra-judicial killings remain a concern. The political debate is becoming increasingly dominated by the run-up to the scheduled presidential elections in 2010.

The existing 2007-2013 CSP contains a single focal sector and three non-focal sectors. This programme is well justified in terms of aid effectiveness. Continued EC support to the Health sector is foreseen under the MIP 2011-13, rather than the possible switch to education foreseen in the CSP. Identified risks for the country strategy (CS) included the breakdown of the peace talks in Mindanao, which has indeed happened. EC funding for the Mindanao Trust Fund will remain commensurately modest. EU funding for the Mindanao Peace Process will remain commensurately modest. EU funding for the Mindanao Peace Process will depend on developments in ongoing talks between the MILF and Government of the Philippines and any decision by the EU to accept the sides' invitation to participate in the International Monitoring Team.

The Health Sector Programme is affected by risks relating to government policy, in particular with regard to reproductive health. However, the most important risk confronting the CS is constituted by possible policy change following the forthcoming presidential election. The health reform appears to be secure and the Philippine National Economic and Development Authority (NEDA) is working to prepare a new medium term development plan, under which health remains a priority. At the same time, it will be important to maintain the impetus of the European Commission's successful work in core governance through a follow up programme to expand and sustain the achievements of the Access to Justice programme. This will complement the EU-Philippines Justice Support Programme to support the eradication of extra-judicial killings funded under the Instrument for Stability. The need to improve local governance, an essential underpinning for the Health Sector Policy Support Programme (HSPSP), is addressed through a project to strengthen local government PFM. The TRTA programme will continue to support trade policy and trade regulation, but will also address investment climate and support to SMEs.

With regard to new policy orientations, the Philippines has been identified as particularly vulnerable to the impacts of climate change, while migration has become a key issue both for the EU and the GoP. The MIP 2011-2013 contains specific interventions addressing these issues.

Indicative Budget Allocation

The indicative financial allocation for the 2011-2013 period is **€69 million**:

I. Focal sector

- Access to quality basic social services – Health €35 million

II. Non-Focal sectors

- Governance €7 million
(includes justice, migration and PFM)
- Support to vulnerable populations €2 million
(includes conflict-affected populations in Mindanao and climate change)
- Trade Related Assistance €5 million

PART 2 MID TERM REVIEW (MTR)

(I) ANALYSIS

Main political, economic, social and environmental developments in the Philippines

Political Situation including Governance

The political scene is dominated by the approaching 2010 presidential elections, which are expected to be marred by violence. Despite some policy successes – a stronger economy and fiscal position; abolition of the death penalty; combating terrorism – the president remains widely (and increasingly) unpopular, and her legitimacy crisis has deepened further of late, with grand corruption scandals hounding her administration. There have been positive developments in the peace process with the MILF, especially a Joint Statement issued by the parties in July 2009 suspending military operations/activities and the establishment of an International Contact Group and the revival of the International Monitoring Team, including a Civilian Protection Mechanism. There is some credible hope that these mechanisms will pave the way for the resumption of formal peace talks and the return of the over 300,000 IDPs.

Economic

Despite posting respectable growth in recent years prior to the crisis (7.2% in 2007 and 4.6% in 2008), the economy remains plagued by structural weaknesses. At the 2008 Philippines Development Forum, the World Bank cautioned that in order to achieve the Philippines' goal of joining the ranks of advanced nations, a high level of growth would need to be sustained for at least a generation¹. Moreover, in order to make a serious dent in poverty levels, it would need to become more inclusive, while sustained high growth would need increasingly to come from higher investment, greater productivity increases, lower transaction costs and better technology.

The Philippines is weathering the global economic crisis better than expected. While the economy has clearly slowed down, with the export sector particularly hard hit, the risks of a recession seems to be receding, with the consensus GDP growth forecast at some 1.5% for 2009. The impact of the crisis on unemployment seems to have been muted, but adjustments in pay and work hours appears to have resulted in greater underemployment. The brunt of these employment impacts seems to have been borne by the lower-middle income class, the low-income class and the poor. Moreover, with an expansionary fiscal stance and falling revenues, the fiscal deficit is expected to increase to some 3.5% of GDP. More generally, there is a growing concern that public spending in general will become more and more politically motivated as the election fever rises. Although debt levels are broadly sustainable, the World Bank believes there is a significant probability that the National Government debt could exceed 80% of GDP over the next five years. High gross financing requirements, estimated at more than 18% of GDP this year and almost 20% next year adds further fiscal risk.

Social

The Philippines is ranked as a lower middle income country. Despite high economic growth in recent years, official poverty estimates show that between 2003 and 2006, when GDP growth averaged 5.4 percent, poverty incidence increased from 30 percent to 33 percent, almost as high as it was in 2000. This meant that out of a population of 87 million in 2006, 27.6 million Filipinos were living below the poverty line - more than ever before.

¹ Philippines Development Report 2008, World Bank.

Analyses of the reasons why growth has historically not translated into greater poverty reduction point primarily to the high rate of inequality in the Philippines, across income brackets, regions, and sectors. Income inequality has fallen slightly but remains higher than in many other countries in the region. The country's Gini coefficient at 0.45 is higher than it was 20 years ago and is also the highest in Southeast Asia. The income of the richest decile of the population is about 19 times that of the poorest decile (2006). There has been mixed progress in addressing the non-income dimensions of poverty, particularly as they relate to human development outcomes. The Philippines ranked 102nd out of 179 countries, with a score of 0.745, in the 2006 Human Development Index (HDI)², down from 90th out of 177 countries, with a score of 0.771, in 2005. The 2007 Mid-term Progress Report on the **Millennium Development Goals** showed mixed results. Gains have been made with regard to certain goals and the targets to eradicate extreme poverty and hunger, increase enrolment rates for girls, reduction of infant mortality, are likely to be met. On the other hand, three **MDGs** are in the category of least likely to be met: achieving universal primary education (Goal 2), improved maternal health (Goal 5) and combating HIV/AIDS, malaria and other diseases (Goal 6). The 2010 Education for All (EFA) monitoring report singles out the Philippines as an example of the marginalisation of the poorest with the resulting low likelihood of achieving MDG 2³.

Environmental and energy trends

The state of the environment has continued to worsen. Only 19% of the country's land area remains forested. In recent years, deforestation has been increasingly blamed for soil erosion, flooding, and drought. The Philippines is particularly vulnerable to the impacts of climate change. Increasing temperatures are already causing irregular monsoons and may also be responsible for the higher recurrence of extreme weather events such as "super typhoons." In 2009 alone, a disastrous string of tropical storms killed more than 1000 people and left millions struggling with floods. In Metro Manila, hundreds of thousands were left without a home after the series of storms, with otherwise rare water borne diseases killing hundreds.

New EU policy objectives and initiatives.

Climate change is now a key priority for the EU and also highly relevant to the Philippines, due to the country's high exposure to climate change effects. The Philippines is already adapting to climate change. It also recognizes its shared responsibility in producing emissions and is starting to promote mitigation measures. The Delegation mainstreams climate change in its existing programme and now plans to develop a specific action to enhance local capacities to adapt to climate change. Few countries depend so greatly on **migration** for their economic vitality as the Philippines. The government has developed a comprehensive policy as well as legal and institutional framework to promote and regulate labour emigration. However, there are still many gaps between legislation and implementation, efforts to protect migrants have been inadequate and abuse and trafficking has not been properly addressed. The Delegation has included an action on migration within the Governance section of the MIP 2011 – 2013. The Philippines is the world's largest importer of rice and has in consequence been badly affected by the crisis, which has impacted in particular on the poor. Under the **Food Facility**, the EU has earmarked a total of €31.9 million for actions to be implemented in the Philippines.

² Human Development Report 2008 (UNDP).

³ 'The gap separating the poorest 20% from the rest of society is far wider than in most countries in the region.' (UNESCO EFA Global Monitoring Report 2010)

Negotiations on an EU-Philippines **Partnership and Cooperation Agreement** started in February 2009. A second round took place in October and the third round was held in December 2009. No insurmountable difficulties are anticipated for this comprehensive framework governing the broad range of EU-Philippines relations, although provisions on human rights/ICC, migration and IPRs will require careful handling.

The **harmonization and aid effectiveness** commitments of the 2005 Paris Declaration were translated into the 2007 EU Code of Conduct on Division of Labour (DoL), which aims to address the problem of aid fragmentation, donor congestion and high transaction costs. The 2008 Accra Agenda for Action calls for fast action on DoL. In the Philippines there has been strong government-led progress on DoL. The National Economic and Development Authority (NEDA) evokes the principles of Paris and Accra as the basis for its aid coordination and pursues the annual survey on monitoring the Paris Declaration with vigour. There is a Harmonisation Committee, chaired by the Department of Finance (DOF) and co-chaired by NEDA, with the Department of Budget and Management (DBM) and the Commission of Audit (COA) as members. The DOF co-chairs with the World Bank the annual meetings of the Philippines Development Forum (PDF). Eight sector-specific working groups, each co-chaired by a government agency and a development partner meet periodically and feed into the annual PDF meeting. The Delegation participates in all of them except for 'infrastructure', and is co-convenor of the sub-working group on health, where the EU is the lead donor supporting the government's health reform SWAP. The PDF has clearly evolved from the traditional Government - Donor Consultative Group meeting that included pledging sessions into a more focused forum with substantive policy dialogues among relevant stakeholders on key thematic areas. At the same time, there are no formal 'lead donor arrangements' and some of the largest development partners, in particular USAID and the UN agencies are not strong supporters of SWAPs and are unable to move towards budget support.

The EU works closely with the EU MS, only two of which (Spain and Germany) have significant cooperation programmes in the Philippines. A donor matrix is maintained and development counsellors meet monthly in order to develop common positions in particular with regard to the annual Philippines Development Forum meeting and in response to humanitarian and other emergencies.

Under the current MIP 36 million out of a total budget of 61 million is allocated to the Health Sector Policy Support Programme (HSPSP), of which 35 million (58%) will be allocated to budget support. The 2011-2013 MIP will reflect the same commitment to attaining or surpassing the target for **use of country systems**.

In May 2009, the Delegation participated as the first pilot delegation for the implementation of the **"Backbone Strategy"** with a training seminar for staff, counterparts and partners, particularly those associated with the HSPSP and the TRTA II project. Moreover, the Department of Health (DoH) has called for the TA component of the HSPSP to be included within the budget support allocation to be managed by the DoH. The Commission no longer manages projects with parallel PIUs in the Philippines and is committed to developing a raft of new projects under decentralised arrangements with the GoP under the 2011-13 MIP.

Results, performance and lessons learnt

Some success has been achieved in **health sector reform** at central level but major challenges remain with regard to improving local level service delivery. Major inequities in access to health facilities and services still exist as the share of total health expenditure paid out of pocket⁴ remains high. As a result benefits have yet to reach the main target population, i.e. the poor and disadvantaged. EU support through a mix of aid modalities (financial support, including Budget Support and technical support) has proven valid, although the planning, approval and fund release processes introduced by DoH for

⁴ Unofficial figure from 2006 is 57% OOP, latest official statistics from 2005 rate the OOP expenditures at 49%

local governments have resulted in long and tedious processes, aggravated in some cases by inability or unwillingness on the part of local governments to comply with the government procurement rules⁵. In comparison with SBS, the WB Trust Fund has not shown any added value, but has rather proven to be additionally complicated. The demand-driven nature of the **Strategic Projects Facility** has been welcomed as an approach that motivates LGU reform evidenced by the large number of proposals submitted (more than 200). Among these, 26% of all concept notes, and 30% of those selected were submitted by LGUs as main applicants. However, European Commission procedures and policies tend to favour LGUs which can already count on higher institutional capacities than the average, since stronger than average LGUs made it through the selection process. Given that the **TRTA II** project under MIP 2007-2010 has only just completed its inception phase, lessons learnt relate in the main to its precursor programme. With regard to procedural issues, the implementing agency NEDA was unable to procure equipment using EU procedures, due to its legal obligation to use GoP procedures. As a consequence, equipment tenders have not been included under TRTA II. The administration's absorption capacity is high, reflecting a well educated work force, but **trade facilitation** has been dogged by strong internal resistance to reform at the Bureau of Customs in a highly lucrative and politicised environment with insufficient external drivers of change. While a full evaluation of the **Mindanao Trust Fund Reconstruction and Development Programme (MTF-RDP)** is ongoing, some preliminary social and impact assessments have been conducted in the past 2 years. In general, the results of these impact assessments have been overwhelmingly positive. Community-driven sub-projects have contributed to social cohesion, community empowerment and have improved the working relationship between communities and the local government units. The joint chairing of the steering committee by the two parties to the conflict together with the WB continues to be a perceived strength in linking progress in implementing the programme to the peace process. Recent discussions with the other major donors contributing to the trust fund have concluded that the programme should continue both to widen the geographical scope of its assistance to include more communities, while also deepening its engagement through supporting a scaling up of activities in communities where initial small-scale activities have been successful. In the area of Governance and Rule of Law, the **Access to Justice** project has demonstrated the importance of protecting the legal rights of the poor and providing them access to justice by building the capacity of the main pillars of the justice system, including courts, prosecution, law enforcement and community involvement. The final evaluation of the project in particular commended the project's strategy to support the decentralisation of legal information desks at municipal and local level to inform poor and vulnerable groups of their rights, the strengthening of the barangay justice system in order to ensure their role as a frontline justice provider and the establishment of access to justice networks.

(II) PROPOSED RESPONSE IN 2011-2013.

The CSP remains relevant in the light of the EU's policy towards the Philippines, the economic and political situation in the country, and the implementation of the CSP to date. Achievement of the MDGs is now threatened by the global economic crisis, which strongly justifies continued support to the **health** sector reform as the focal sector in addressing poverty in the Philippines.

The Philippines' status as a middle-income country in which respectable economic growth is accompanied by high levels of poverty is critically linked to weak institutions and poor **governance**, reflected in its low scores in the 2008 WB Worldwide Governance Indicators, particularly with regard to corruption and political stability/absence of violence. It is essential therefore to underpin the EU's support to the health sector with support to good governance. Support for enhanced service delivery by local government units through improved PFM initiated within the HSPSP will be taken forward in a discrete project with the Department of Budget and Management. At the same time, the analysis of the

⁵ Although the first fixed tranche had been released in full by January 2009 (Budget Support) and March 2009 (Trust Fund), by October 2009 utilisation by the individual provinces was only between 0% and 26% in the case of BS and remained at 0% in 5 of the 6 WB TF provinces.

governance environment indicates that this technical approach to enhance the efficiency of government must be accompanied by support to address the deficit in security, especially for poor people. The Delegation of the EU will therefore seek to expand and sustain the achievements of the **Access to Justice** programme implemented under the 2004-2006 MIP. This will complement the EPJUST programme to support the eradication of extra-judicial killings, which is currently funded under the Stability Instrument with a proposed follow-up under the MIP 2011 – 2013.

Migration, now a core priority for the EU, is particularly relevant in the Philippines with its large outflows of migrants and high dependence on remittances, particularly with regard to the Health Sector, which is critically affected by the shortage of skilled personnel. As part of the enhanced governance programme the MIP 2011-2013 will include a component addressing aspects of migration management.

At the same time, the main thrust of the programme in addressing poverty must be complemented by serious attention to the extreme vulnerability which characterises the livelihoods of many of the poor. A critical aspect of vulnerability in the Philippines is exposure to severe weather events, which is already considered to be affected by climate change. This is now a key priority for the EU, appearing as a new policy in the Lisbon Treaty in January 2007, as part of an integrated climate change and energy policy. As well as ensuring that climate change is mainstreamed across the programme, the MIP 2011-2013 proposes a specific intervention to enhance community adaptation to climate change. Addressing the vulnerability of poor communities in Mindanao affected by the on-going conflict and endemic violence, which have led in 2008-9 to unprecedented levels of displacement, will continue to be a priority through further support to the Mindanao Peace Process, based on increasing synergy with actions funded through the AUP regional programme and emergency interventions funded by ECHO.

The Philippine government has acknowledged the need to increase export-oriented productivity in its plans to exit from the global economic crisis and has indicated that SME development has a crucial role to play. Increased support for this sector will be a feature of the TRTA programme.

In terms of aid modalities and aid effectiveness, it is clear that as the health reform broadens its scope and begins to reach a mature platform where performance in terms of health outcomes becomes meaningful, budget support will remain the chosen mode for delivering EU support. At the same time there may be scope for a five-pillar assessment to enable the use of government systems under the TRTA programme.

PART 3 THE INDICATIVE PROGRAM 2011 – 2013

I. Focal Sector - Support to the delivery of basic social services – Health - DAC code 12220

1.1. Main priorities and goals

Support for the health sector under the MIP 2011-2013 will be a continuation of the SPSP. The intervention aims at ensuring continuity, building on the lessons learnt and the gains and momentum created during implementation to date and anticipated under the AAP 2009, with the goal of further contributing to an improved health status of the country's poor, underserved and disadvantaged populations, and to the achievement of the MDGs in the Philippines. EU support will be in the form of a sector policy support programme for the Sector Development Approach to Health (SDAH) of the Philippine Government. The overall goal of the action is to contribute to the improvement of the health status of the population especially the poor and most vulnerable and the attainment of health-related MDGs through a more effective, efficient and equitable health system.

1.2 Specific objectives and target beneficiaries

The specific objective is to support GoP's Health Sector Reform Agenda, which will improve equitable access to and utilisation of affordable, financially sustainable, quality essential health services nationwide, with particular emphasis on maternal and reproductive health, in order to achieve MDG 5. Target beneficiaries are the population as a whole with special emphasis on poor and disadvantaged population groups, including indigenous peoples (IPs) and 'Geographically Isolated and Disadvantaged Areas' (GIDA). EU support could also include the prevention and control of communicable and non-communicable diseases, particular through facilitating the implementation of international health treaties of which the Philippines is a party.

1.3 Expected results

While HSPSP phases 1 (under implementation) and 2 (under AAP 2009) have a strong emphasis on strengthening central government capacity building, including under HSPSP 2 a focus on developing the capacity of the regional Centres for Health Development to deliver central DoH support to LGUs, for the MIP 2011-2013, the emphasis will be on further strengthening local health systems. Evaluations of the ongoing support will further define the priorities and challenges to be addressed in different reform areas at central and local level and expected results will be formulated accordingly.

1.4 Indicators

The achievement of specific outcomes will be measured by means of the national Monitoring and Evaluation for Equity and Effectiveness (ME3) system. The high level indicators and related targets reflect MDG commitments. The necessary data will be generated through regular national statistics (Field Health Information System, Scorecards), national surveys (National Demographic and Health Survey), and other relevant information systems.

Key pro-poor indicators will include:

- Percentage of fully immunised children below 12 months of age
- Percentage of newborns initiating breastfeeding within one hour of birth
- Contraceptive Prevalence Rate (MDG 5).
- Percentage of births attended by skilled birth attendants (MDG 5).
- TB Case detection Rate (MDG 6).
- Percentage of poor families enrolled in the PhilHealth Sponsored Program.

1.5 Risks and assumptions

2010 is a critical year. National elections will bring a change of administration. The implementation framework of the health reform will end. A bridging plan is being prepared to cover the period prior to the adoption of a new National Medium Term Development Plan. NEDA has informed the EU Delegation that the health reform is expected to continue. Achieving MDG 5 (reduce maternal mortality) is threatened by the continuing policy impasse with regard to making reproductive health services available in particular to poor women. A reproductive health bill will have to wait until after the elections before having the chance to be passed into law, although the appointment in January 2010 of a new Health Secretary, the Former Secretary of Social Welfare, who is a key supporter of reproductive health rights, may have an immediate facilitative effect.

1.6 Programmes to be implemented in pursuit of these objectives and the type of assistance to be provided

EU support will take the form of a SPSP to be implemented, preferably, through budget support. Technical Assistance will be provided upon request for capacity development needs identified by the partner country. Policy dialogue and donor coordination will be continued and further strengthened. Specific interventions may be considered to continue EU support to the Autonomous Region of Muslim Mindanao (ARMM) and the EU will also consider providing direct support to interventions at the local level addressing the unmet need for comprehensive family planning services and supplies.

1.7 Integration of cross-cutting themes

EU support to the health sector will have a strong focus on integrating crosscutting issues including Gender, Human Rights, Good Governance, Environmental Sustainability and Climate Change. The action focuses on equitable access to essential health services and takes the different needs of women, men, indigenous people (IPs) and other disadvantaged population groups into account.

1.8 Financial envelopes

The indicative EU allocation for the action is €35 Million. A portion of this overall allocation may be used for specific arrangements to support the Autonomous Region of Muslim Mindanao and for reproductive health.

1.9 Activities under other EU budgetary instruments in the country

The EU will continue to prioritise this area in calls for proposals under the NSA LA programme, and/or under the Investing in People thematic programme in the eventuality of the Delegation launching a local call for proposals. Under MIP 2011-13 the EU will support DBM in the strengthening of Local Government Unit (LGU) PFM, which is an essential underpinning to the sustainable implementation of the health reform and will facilitate fund flows to LGUs.

II. Non-Focal Sector – Governance

The overall objective of the Non-Focal Sector Governance is to enhance good governance in order to underpin sustainable development and reduce poverty. The programme will contain three actions: improved access to justice and the fight against extra-judicial killings and enforced disappearances; support for public finance management reform; and support to improved migration management.

1. Improved access to justice and the fight against extra-judicial killings and enforced disappearances – DAC codes 15130 and 15210

1.a Improved access to justice

1.a.1 Main priorities and goals

The overall objective is to secure respect for the rights and entitlements of and access to justice for the poorest and most vulnerable members of society, including women, children, minorities, indigenous peoples, persons living with HIV/AIDS and disabilities.

1.a.2 Specific objectives and target beneficiaries

- Vulnerable individuals and communities capacitated to effectively seek and achieve remedies through formal and informal mechanisms for the protection of their rights and property and the resolution of disputes.
- Institutional and informal mechanisms capacitated to effectively provide such remedies.

Whereas the final beneficiaries of the action will be the vulnerable people themselves, the direct beneficiaries or partner agencies will include a number of relevant bodies, of which the following are likely to be included: the Department of Social Welfare and Development (DSWD), Department of Justice (DoJ), Department of Interior and Local Governance (DILG, including Police), Local Government Units (LGUs), the Congress, the Supreme Court (SC, including the Philippines Judicial Academy, the Judicial and Bar Council, and the Office of the Court Administration, The National Human Rights Institutions (NHRIs), National Commission on Indigenous Peoples (NCIP), the National Commission on the role of Filipino Women and the civil society.

1.a.3 Expected results

- Enhanced and effective legal protection and awareness;
- Enhanced and effective government and non-government legal aid and counsel mechanisms;
- Enhanced and effective formal and informal adjudication;
- Enhanced and effective enforcement of law;
- Enhanced and effective civil society and parliamentary oversight and participation

1.a.4 Indicators

- Increase in vulnerable persons' confidence in the judicial and non-judicial systems
- Measurable increase in the number of cases brought before judicial and non judicial mechanisms by vulnerable persons
- Measurable increase in the number of cases involving vulnerable persons processed and ruled upon by judicial and non-judicial and dispute resolution mechanisms
- Measurable increase in the reporting of violence against women and human trafficking, leading ultimately to a reduced incidence of such cases.

1.a.5 Risks/Assumptions

The main assumption based on the experience of the previous Access to Justice Project is that all the stakeholders of the action will be committed to legal, procedural, institutional and cultural change as well as to cooperation between them. The most critical risk is that following the elections in May 2010 the incoming regime is unsupportive or indeed hostile to the programme.

1.a.6 Programmes to be implemented in pursuit of these objectives and the type of assistance to be provided

Implementation is expected to be through the project approach using decentralised management with a lead agency still to be determined. The option of an SPSP might be considered during the identification and formulation stages.

The action is expected to involve a range of activities, including: provision of technical assistance and establishment of partnership with the academia for legislative reform; provision of technical assistance for the design, implementation and monitoring of action plans for the dissemination of legal and judicial information; support to alternative law groups, organisation of workshops to enhance coordination between state and non-state funded legal aid providers; support to the decentralisation of the judicial system, support to the development of referral and other cooperation mechanisms between the formal and traditional justice mechanisms, support to National Human Rights Institutions, support for the development of alternative dispute resolution mechanisms, development and implementation of training modules for lawyers, paralegals, prosecutors and judges on women, children and indigenous peoples' rights.

1.a.7 Integration of cross-cutting themes

Cross-cutting issues such as gender, indigenous peoples, environment, anti-corruption, governance, human rights and migration will be mainstreamed.

1.a.8 Financial envelopes

The EU contribution to the action will be determined during the identification and formulation stages.

1.a.9 Activities under other EU budgetary instruments in the country

The delegation will ensure that this action is formulated and implemented in close coordination with the parallel actions on migration and extra-judicial killings. There will also be effective coordination with relevant CSO and UN agencies such as ILO and UNICEF, in particular with the EU-funded ILO project on assistance on reintegration of trafficked victims.

1.b Fight against extra-judicial killings and enforced disappearances

1.b.1 Main priorities and goals

The overall objective is to ensure the protection and promotion of human rights, democratic values and the rule of law by supporting the control, reduction and eventual elimination of extra-judicial killings and the enforced disappearance of activists, journalists, trade-unionists and farmers' representatives.

The action is conceived as a follow-up to the IFS-funded EPJUST programme launched in October 2009 for a period of eighteen months and is therefore dependent on the evaluation of that programme indicating satisfactory progress in 2010 and recommending follow-up. The action would aim at the consolidation of achievements and implementation of new activities towards achieving the overall objectives and results.

1.b.2 Specific objectives and target beneficiaries

- To combat impunity by reinforcing the capacity of civil society and the national human rights institutions to seek justice for such crimes and by capacitating the criminal justice system to deliver justice through the identification, prosecution and sentencing of the perpetrators, accomplices and other culprits.
- To further prevent the commission of these crimes through awareness-raising and promoting embedded respect for human rights within relevant state authorities and agencies

Current and potential victims of extra-judicial killings and enforced disappearances and their relatives will benefit from enhanced protection and human security. The population as a whole will benefit from enhanced rule of law and the safeguarding of human rights. The direct beneficiaries will be the stakeholders of the criminal justice system (including law enforcement services, the prosecution, the judiciary and the penitentiary), the National Human Rights bodies (including the National Human Rights Commission and the Ombudsman), and civil society.

1.b.3 Expected results

- Enhanced capacity of law enforcement agencies and the national prosecution service to investigate and prosecute extra-judicial killings, including enhanced cooperation between law-enforcement agencies and the prosecution service;
- Effective judicial proceedings through an empowered and capacitated judiciary;
- Effective protection of human rights through empowered national human rights bodies and civil society.

1.b.4 Indicators

- Increase in the number of cases successfully investigated and prosecuted;
- Increase in the number of court rulings and orders duly executed;
- Increase in civil society and the public's confidence in the capacity and willingness of the criminal justice system to provide remedies for such crimes;
- Increased participation of civil society in ensuring protection of human rights and rule of law.

1.b.5 Risks/Assumptions

The main assumption is the commitment of decision-makers to putting an end to extra-judicial killings and enforced disappearances. This assumption is critically dependent on the outcome of the elections in May 2010, following which a new regime will set the agenda. A related critical assumption is that there will be sufficient drivers of change within the various bodies involved to ensure effective and sustainable institutional change. A third assumption is that the different stakeholders will be able to overcome their mutual distrust sufficiently to enable the effective collaboration on which the achievement of change is premised.

1.b.6 Programmes to be implemented in pursuit of these objectives and the type of assistance to be provided

As for the EPJUST programme, this action is expected to be implemented through a range of technical assistance modes (twinning arrangements, provision of short-term expertise, peer support, etc.), trainings, seminars, workshops, production of materials to be complemented by a limited provision of equipment and grants.

1.b.7 Integration of cross-cutting themes

The cross-cutting issues of respect for human rights, democratisation and promotion of the rule of law are at the core of this action and will therefore *ipso facto* be mainstreamed in all its activities.

1.b.8 Financial envelopes

The EU contribution to the action will be determined during the identification and formulation stages. If it is decided not to implement an action to follow on from EPJUST, then the allocated amount, will be allocated to the Access to justice action (see above).

1.b.9 Activities under other EU budgetary instruments in the country

This action and the proposed Access to Justice action complement one another without overlapping. They have different focuses, the former focusing exclusively on the criminal justice system with regard to a very specific type of human rights violations, whereas the latter also covers the civil justice system, the informal justice system, together and a range of human and other rights violations. With respect to human rights violations and the criminal justice system, both will have a direct or indirect impact on the capacities of victims to seek remedies for the injustices suffered including in terms of legal protection, awareness and assistance; on the capacities of the state to provide those remedies notably with regard to investigation, prosecution and witness protection; as well as on the promotion of a general culture of respect for human rights.

Furthermore, this action will be complemented by a number of smaller actions under the EIDHR budget line providing grants to NGOs working for instance on investigative journalism, political participation, protection of human rights defenders, legal assistance, etc.

2. Governance - Support to Public Finance Management Reform – DAC code 15111

2.1 Main priorities and goals

Responsibility for delivering public services, particularly in the health sector, which is the focal sector of the CSP involving budget support, is largely devolved to LGUs. This action will therefore be mainly directed towards strengthening LGU PFM functions. The overall objective is to contribute to the Public Finance Management improvement of LGUs to increase allocative efficiency, operational effectiveness and efficiency and transparency and accountability for results.

2.2 Specific objectives and target beneficiaries

The specific objective is to support strengthening of the financial management and accountability of LGUs in line with national laws and regulations. Target beneficiaries are the provincial and sub-provincial administrations (LGUs) and indirectly the population of the beneficiary LGUs through more efficient and responsive public service delivery.

2.3 Expected results

The expected results and priority activities will be defined at LGU level and can vary among provinces. Further mainstreaming can be expected as a national PFM reform emerges. In addition to the areas defined by the LGUs in their improvement plans, the following have been identified as targets for LGU PFM performance:

- Improved Transparency of and public access to budget and budget execution.
- Strengthened DBM capacity as oversight and support agency for PFM at local level.
- Adequate response to external audit (COA) findings on the LGU PFM performance.

2.4 Indicators

- Percentage deviation of actual expenditure from budget in provincial LGUs.
- Percentage of lots / packages in the provincial procurement plans implemented in full compliance to national government regulations.
- Provincial Internal Audit office meeting international professional standards including timely follow-up on audit findings.

2.5 Risks and assumptions

The fiscal autonomy granted to LGUs under the local government reform act prevents DBM from imposing PFM reform. The model developed by DBM is therefore to offer demand-driven services through its regional offices. The prospect of improving eligibility for additional funding, i.e. the Budget Support provided by the HSPSP has been a good incentive for reform, which it is assumed will continue to sustain this demand-driven approach. At the same time, in the short term the 2010 elections will bring a strong threat of politicisation and abuse of LGU budgets.

2.6 Programmes to be implemented in pursuit of these objectives and the type of assistance to be provided

Needs based technical assistance is envisaged as well as financial resources where appropriate could be provided to assist in the implementation of province-wide PFM improvement plans. Should moves towards a multi-agency national PFM reform programme result in an opportunity to provide coordinated donor support, e.g. through pooled funding or a similar mechanism, then this approach will be considered as an alternative option.

2.7 Integration of cross-cutting themes

The action will include appropriate activities to address cross-cutting issues of gender equality, environmental protection and human rights. These are already reflected in the Budget Operation Manual which the DBM has issued to LGUs, which the action will support in particular with regard to participatory budgeting, gender budgeting and accountability, information sharing and performance monitoring.

2.8 Financial envelopes

The indicative EU contribution for the action will be determined during the identification and formulation stages.

2.9 Activities under other EU budgetary instruments in the country

This action will support the implementation of the focal sector HSPSP through strengthening the capacity of LGUs to allocate, utilise and account for funds and to undertake procurement in line with the GoP procurement law. The action will also be aligned with actions implemented under the AAP 2007 Strategic Project Facility aimed at supporting improved LGU governance.

3. Governance – Migration – DAC code 15110

3.1 Main priorities and goals

The overall objective of the action is to promote good governance, poverty reduction and development through the strengthening of the overall migration management in the Philippines. It will address gaps and needs in the areas of migration policy and management at national, regional and local level, improve coordination between all stakeholders involved in migration management and ultimately lead to an improved national migration management framework.

3.2 Specific objectives and target beneficiaries

The specific objective of the action is to strengthen legislative, institutional and administrative structures, to enhance national and local capacities for effectively managing migration and to maximise the positive effects and minimise the negative effects of migration on the country's development. The target beneficiaries are relevant government agencies involved in migration management and the LGUs and through them the Overseas Filipino Workers and their families and ultimately the population as a whole, especially the poor. Evaluations of ongoing support to migration management will further define the priorities and challenges to be addressed at central and local level and more detailed expected results will be formulated accordingly.

3.3 Expected results

- Improved migration policy, strategy and management framework, including the migration and development aspect;
- Improved migration data collection, registration and analysis;
- Improved capacities for migration management at national, regional and local levels;
- Development projects by both OFs and OFW associations in the Philippines and abroad, including families left behind, together with local government units and civil society implemented.

• 3.4 Indicators

Overall indicators might include:

- Migration and development strategy and action plan adopted or included as part of MTPDP.
- Existence of a comprehensive migration data base.
- Number of OFW and OF organisations involved in development projects

3.5 Risks and assumptions

Different government agencies at national level involved in migration continue to be open for coordination and information sharing among each other and with regional and local government levels. OFs and OFWs are willing to invest resources, financial or other, in development initiatives in their communities of origin.

3.6 Programmes to be implemented in pursuit of these objectives and the type of assistance to be provided

The technical assistance activities will likely be a combination of expert advice, capacity building, train-the-trainers programmes, studies, workshops and conferences at national, regional and local level. They will be in line with beneficiaries needs and designed to maximize impact in view of specific and overall objectives.

3.7 Integration of cross-cutting themes

Good governance, human rights and gender equality are key cross-cutting themes to be mainstreamed in the action in supporting government capacity building for improving migration management in order to protect the rights of both potential and actual OFWs, specifically promoting gender equality and preventing trafficking. Furthermore, the action will support and encourage the involvement of Civil Society in working together to produce responsive polices and services including monitoring of migration issues.

3.8 Financial envelopes

The EU contribution to the action will be determined during the identification and formulation stages.

3.9 Activities under other EU budgetary instruments in the country

The action will build on the results and achievements of a number of small-scale projects implemented under the thematic budget line for asylum and migration. It will seek to complement and expand the successful outcomes and lessons learned from these currently ongoing actions. In addition it will have a link to the Access to Justice action under this MIP, especially as regards trafficking in human beings. This action will also benefit the DoH and the Health Sector Reform (EU focal sector). The exodus of health personnel critically impedes the development of improved health services in the country. The proposed action on migration will therefore link with support to the Human Resources for Health strategy under the HSPSP.

III. Non-Focal Sector – Support to vulnerable populations, including Mindanao

The overall objective of the Non-Focal Sector Support to vulnerable populations, including Mindanao is to promote peace and stability, sustainable development and reduce poverty through addressing the needs of those most at risk from natural and man-made disasters. The support will contain two actions: 1. Support to the Mindanao Peace Process and 2. Climate change adaptation and mitigation.

1. Support to the Mindanao Peace Process– DAC code 73010

1.1 Main priorities and goals

The overall objective of the action is to contribute to peace and development in the Philippines, particularly in the conflict-affected and poverty-stricken Mindanao. The EU's continued support parallels its political commitment to the peace process in Mindanao. It also corresponds to the priorities set out in the CSP 2007-2013, to provide support to the most vulnerable sectors of society and in particular on stability and security issues in poverty-stricken Mindanao. Based on the positive record of achievements to date, the EU will continue to fund the Mindanao Trust Fund-Reconstruction and Development Programme (MTF-RDP) at an appropriate level, which is likely to remain modest.

1.2 Specific objectives and target beneficiaries

The specific objective of the action is to support inclusive community driven reconstruction and development of conflict-affected areas in Mindanao, thereby contributing to peace and stability in the region. The main stakeholders and target beneficiaries are communities in 150 Mindanao municipalities identified as conflict-affected areas (CAAs).⁶ Other important stakeholders are various GoP agencies at regional, provincial, municipal and barangay levels, the Bangsamoro Development Agency (BDA), other concerned implementing agencies, service providers from civil society and the private sector.

1.3 Expected Results

- Effective and inclusive governance processes with the involvement of key stakeholders set up at all levels of program management, participatory planning, implementation, and management of local development activities, supplemented by capacity building at all levels.
- Economic and social recovery of conflict-affected areas achieved through the provision of grants to communities, internally displaced people, and municipalities that will be used for livelihood/reconstruction and economic recovery.

1.4 Indicators

These indicators will be refined during the identification and formulation stages:

- Existence and quality of peace and conflict sensitive development plans in target LGUs affirmed by stakeholder.
- Improved living conditions in target LGUs as affirmed by stakeholder perceptions measured against a baseline.
- Reduced conflict and improved human security as affirmed by stakeholder perceptions measured against a baseline.
- Increase in economic activity in target LGUs measured by sample surveys against a baseline.
- Increased role of women's organisations in the peace process.

1.5 Risks and Assumptions

Failure of the GoP-MILF peace talks is a fundamental risk which could lead to widespread conflict. Currently the ceasefire is holding and the revival of negotiations are underway. At the same time violence and conflict are endemic to the region. 2010 is an election year and the historical record indicates that Maguindanao in particular will face the threat of associated violence.

Elite capture of benefits, bad governance and corruption are also critical risks. These are mitigated through capacity building efforts, participatory and transparent planning and budgeting processes, involvement of LGUs in the process, close monitoring and audits, as well as the use of sanctions, should gross misuse of funds take place.

1.6 Programmes to be implemented in pursuit of these objectives and the type of assistance to be provided

The preferred implementation modality of the action (to be confirmed during the identification and formulation phases) is through the ongoing World Bank-administered multi-donor trust fund with the support of other donors, including Australia, Canada, New Zealand, United States, Sweden and the European Commission. The Bangsamoro Development Agency (BDA) has been selected by the GoP and the MILF to lead and manage the rehabilitation and development efforts in conflict affected areas

⁶ Defined as places where armed conflict between the GoP and MILF forces is taking place or had taken place or where there are evacuees and/or displaced families as a result of such conflict. These cover 3,833 barangays in 150 municipalities in 13 provinces of Mindanao.

in Mindanao. The action's major activities include the provision of grants to communities, internally displaced people (IDPs), non-government organisations, barangays and municipalities for improvement of basic services, livelihood and peace promotion activities; promotion of peace and inclusive governance processes with the involvement of key Mindanao stakeholders at all levels of management through participatory planning, implementation and management of local development activities; and promotion and practice of effective governance through the learning process of inclusive multi-stakeholder consultation in a timely and responsive manner to community needs.

In case there is a breakdown in the peace talks and violence escalates in the area, including evidence that upscaling cannot be pursued using the existing trust fund, funds allocated to this action may be channelled to the focal sector (health) and /or to support basic education in Mindanao.

1.7 Integration of cross-cutting themes

Human rights, Internally Displaced Peoples (IDPs), gender, indigenous people (IPs), environment and land tenure are fully taken into account in the action. Strong emphasis is put on environmental issues as the Mindanao conflict has roots in the question of control over natural resources, especially land, but also mining, timber, oil, gas, and fishing resources. Access to land and resources, with its impact on the environment, has to be tackled as a priority to ensure sustainable peace. Particular focus will also be made on women's role in peace and security issues.

1.8 Financial envelopes

The EU contribution to the action will be determined during the identification and formulation stages.

1.9 Activities under other EU budgetary instruments in the country

The HSPSP and MHSPSP support the health sector reform in provinces of Mindanao including the ARMM. ECHO humanitarian assistance to address the plight of the civilian victims of the conflict in Mindanao is ongoing since 2008. Longer term rehabilitation assistance for displaced persons and host communities affected by the conflict is provided through the regional Aid to Uprooted People programme implemented by the UNDP as part of the "Act for Peace" Programme. In addition, funding under the Instrument for Stability (IfS) supports confidence-building, dialogue and humanitarian protection actions in Mindanao. The Parties of the Mindanao Peace Process have invited the EU to join the International Monitoring Team and to lead one of the four components of the IMT, i.e. the development component. Ongoing talks between the Parties will influence the EU decision in this context.

2. Climate change adaptation and mitigation – DAC code 41010

2.1 Main priorities and goals

The overall objective of the action is to contribute to mitigating carbon emissions in the Philippines, particularly from deforestation/degradation, and to strengthen the Philippines' capacity to adapt to Climate Change.

2.2 Specific objectives and target beneficiaries

The specific objectives of the action will be to reduce climate change vulnerability in communities most exposed to extreme weather risks and to reduce emissions from deforestation in selected forest sites in the Philippines. The beneficiaries will be rural communities (incl. indigenous communities), vulnerable households in urban centres threatened by flooding and other severe weather phenomena, and the local authorities with responsibility for addressing these issues and providing services.

2.3 Expected results

The key results of the action will be the adoption of climate resilient practices by the targeted communities and the development of forest conservation mechanisms locally and at the national level.

2.4 Indicators

- Number of local communities effectively adopting climate change coping strategies.
- Number of households protected from extreme weather events as a result of newly adopted security measures.
- Reduction of forest degradation as compared to historical trend in the targeted sites.
- Forest area under conservation schemes.
- National forest conservation framework adopted and implemented.

2.5 Risks and assumptions

The main assumption is that climate change remains high on the political agenda in the Philippines so that the administration facilitates the adoption of new disaster prevention strategies and emission reduction practices. The emphasis that the new administration will put on mining is also key to forest protection in the country.

2.6 Programmes to be implemented in pursuit of these objectives and the type of assistance to be provided

A single action is envisaged, to be managed in close coordination with various agencies and assemblies (Office of the Presidential Advisor for Climate Change, Forest Management Bureau/DENR, Department of Interior and Local Government (DILG), National Commission for Indigenous People (NCIP), National Disaster Coordinating Council etc.), LGUs and non-state actors.

2.7 Integration of cross-cutting themes

Gender issues will be duly taken into account during project implementation, given the role of women with regard to natural resources management in communities coping with climate change. The action directly addresses the concerns of indigenous populations. Large tracts of forest land are located within community-based forest management areas and ancestral domain territories.

2.8 Financial envelopes

The EU contribution to the action will be determined during the identification and formulation stages.

2.9 Activities under other EU budgetary instruments in the country

The action will build on previous and ongoing EU actions, particularly those in the fields of natural resources management and governance.

The European Commission has an extensive background in promoting community-based forest management approaches in the Philippines through NGO actions, regional and bilateral projects (e.g. UDP). The Commission is also actively involved in environmental governance (both at the national level and at the local level, through the Strategic Projects Facility). The action will also build on these experiences. The action will be complementary to those components of the proposed action for Access to Justice that address the IP concerns in respect of Ancestral Domain and natural resource management; likewise with actions under the NSA/LA programme and the Strategic Project Facility (AAP 2007). Climate Change Adaptation is closely related to DDR, which is considered to be part of the Health Sector in the Philippines. The CBA component will be duly harmonised with EU actions responding to local vulnerabilities financed by DIPECHO and with the HSPSP.

IV. Non-focal sector – Trade Related Assistance – DAC codes 33110 and 33120

1.1 Main priorities and goals

While the final evaluation of TRTA 1 confirmed the relevance and for the most part the efficiency and effectiveness of the programme, it emphasized the need for a long term engagement given that strategic processes will only show full impact over the long run. While it can be expected that a follow up action in the trade field will be able to build upon and further consolidate progress in the areas of trade policy and trade regulation, it is recommended that a future action should put a special focus on investment climate in order to reap the benefit from the effects of job creation and technology transfer of FDI, as well as on MSMEs as the basis of the Philippine economy and an source of inclusive growth.

The overall objective of the action is to enhance the Philippines' participation and integration in world trade and to improve the investment climate, with the aim to contribute to reducing poverty and ensuring sustainable development.

1.2 Specific objectives and target beneficiaries

To facilitate trade and investments by strengthening the capacity of selected government agencies (e.g. DTI, DA and various sub bureaus) as well as targeted non-state actors to address technical constraints to trade and investment in order to support the Philippines' efforts to maximize the benefits from economic integration, regionally, bilaterally and multilaterally, and promote pro-poor (and pro MSME) growth minimizing the costs caused by further integration.

1.3 Expected results

- Increased capacity in the Department of Trade and Industry and other relevant agencies to implement a comprehensive trade strategy.
- Increased compliance of Philippine exports with international (and EU) technical standards and with SPS requirements.
- A more business friendly investment climate including for FDI.
- More competitive MSMEs in selected export driven economic sectors.

1.4 Main Indicators

- Number of recommendations/actions implemented of the “coherent, effective international trade strategy” developed under TRTA II.
- Percentage of national technical standards and SPS requirements aligned to international and EU standards.
- Number of laboratories accredited to international standards.
- Increased export performance of MSME's in selected economic sectors.
- Number of investment friendly measures included in relevant policy areas.

1.5 Risks and assumptions

The action would fall in the post 2010 election period. According to current projections it will also fall into a period of economic recovery, including as regards picking up of trade after a serious downturn period. Protectionist pressures, reform and implementation fatigue combined with continued governance challenges remain a considerable risk. The objective of reaching an ASEAN economic community by 2015 (Bali declaration) should help to keep a pro trade momentum. The risk of regional integration going at the expense of bilateral or multilateral integration seems limited. Having said this, the action would support the Philippines in its efforts to implement those commitments it wishes to undertake.

1.6 Programmes to be implemented in pursuit of these objectives and the type of assistance to be provided

Implementation is envisaged through an action to follow on from the current TRTA 2 project with an enhanced focus on investment climate issues and increased support for MSMEs development through decentralized management. The technical assistance activities will likely be a combination of expert advice, training, both within and outside the public administration, supporting studies, workshops and conferences. They will be in line with beneficiaries needs and designed to maximize impact in view of specific and overall objectives.

1.7 Integration of cross-cutting themes

Trade and economic integration policy needs to be supportive of sustainable development, including its environmental and social dimension. Trade policy can also help mitigate climate change for example through facilitating trade of environmental friendly goods and services; the outcome of the Copenhagen conference has shed more light on this aspect. Adopting international technical and SPS standards can bring positive effects for animal, plant and human health. Special focus will be given to gender aspects, in particular in terms of participation in all activities.

1.8 Financial envelopes

The indicative EU contribution to the action is €5 million. The current TRTA 2 project will end its four year project period in August 2012. To avoid any gaps programming for the trade related follow up action should start in early 2011.

1.9 Activities under other EU budgetary instruments in the country

The ASEAN-EU Programme on Regional Integration Support Phase II (Apris II) is currently the main programme complementing bilateral trade related technical assistance programmes with an ASEAN wide perspective. It will be crucial to harmonise a post 2012 TRA action in the Philippines with the next phase of Apris in order to maximize synergies, such as on standard setting and conformity. This also applies with respect to the EC-ASEAN Intellectual Property Rights Co-operation Programme (ECAP II).

Annex 1: "Country at a Glance"

a) Macro-economic indicators

	2005	2006	2007	2008	2009 ^f	2010 ^f	2011 ^f
Basic data							
1 Population (in 1000)	85261	86973	88706	90457	92227	94013	95787
- annual change in %	2.0	2.0	2.0	2.0	2.0	1.9	1.9
2a Nominal GDP (in millions €)	79482	93708	105484	115042	n/d	n/d	n/d
2b Nominal GDP per capita (in €)	932	1077	1189	1272	n/d	n/d	n/d
2c - annual change in %	11.5	15.6	10.4	7.0	n/d	n/d	n/d
3 Real GDP (annual change in %)	5.0	5.4	7.2	4.6	1.9	2.8	4.0
4 Gross fixed capital formation (in % of GDP)	14.4	14.0	14.8	14.8	n/d	n/d	n/d
International transactions							
5 Exports of goods and services (in % of GDP)							
- of which the most important: electronics (in % of GDP)	47.6	47.3	42.6	38.0	n/d	n/d	n/d
6 Trade balance (in % of GDP)	16.0	14.5	11.8	9.0	n/d	n/d	n/d
7 Current account balance (in % of GDP)							
8 Net inflows of foreign direct investment (in % of GDP)	-7.9	-5.7	-5.8	-7.5	n/d	n/d	n/d
	2.0	4.5	4.9	2.5	1.8	1.3	1.5
9 External debt (in % of GDP)							
10 Service of external debt (in % of exports of goods and non-factor services)	1.9	2.5	2.0	0.9	n/d	n/d	n/d
11 Foreign exchange reserves (in months of imports of goods and non-factor services)	54.8	45.4	38.1	32.0	n/d	n/d	n/d

Government	13.5	12.0	10.1	9.6	n/d	n/d	n/d
12 Revenues (in % of GDP)							
- of which: grants (in % of GDP)							
	3.8	4.2	5.7	6.0	6.5	6.3	6.0
13 Expenditure (in % of GDP)							
- of which: capital expenditure (in % of GDP)							
14a Deficit (in % of GDP) including grants							
	15.0	16.2	17.1	16.0	15.1	15.0	15.1
14b Deficit (in % of GDP) excluding grants							
	0.002	0.003	0.002	0.002			
15 Debt (in % of GDP)							
- of which: external (in % of total public debt)							
	17.7	17.3	17.3	17.0	17.7	17.3	17.2
	1.2	1.7	2.2	2.1	n/d	n/d	n/d
Other							
16 Consumer price inflation (annual average change in %)							
	-2.7	-1.1	-0.2	-0.9	-2.6	-2.4	-2.2
17 Interest rate (for money, annual rate in %)							
	-2.7	-1.1	-0.2	-0.9	n/d	n/d	n/d
18 Exchange rate (annual average of national currency per 1 €)							
	92.5	81.9	71.8	70.7	n/d	n/d	n/d
19 Unemployment (in % of labour force, ILO definition)							
	65.3	61.3	53.9	51.6	n/d	n/d	n/d
20 Employment in agriculture (in % of total employment)							
	7.6	6.2	2.8	9.3^e	4.5	4.0	4.0
	6.4	5.4	3.4	5.4	n/d	n/d	n/d
	68.49	64.38	63.03	65.17	n/d	n/d	n/d

7.8	8.0	7.3	7.4	n/d	n/d	n/d
37.0	36.6	36.1	34.7	n/d	n/d	n/d

N.B.

(e) estimates

(f) forecasts

n/d no data available

Data explanation:

1) Except where indicated, forecasts are based on WB's projections as of 2009 April. Given the large uncertainties in the current global economic environment, such forecasts are subject to frequent revisions and large variations. For instance, as of April, ADB forecasts GDP growth of 2.5% in 2009 and 3.5% in 2010, while IMF forecasts zero GDP growth in 2009 and only 1% growth in 2010."

2) For 2005-2008, data generated are estimates from the National Statistical Coordination Board (Philippines) and Bangko Sentral ng Pilipinas.

Sources of data:

National Statistical Coordination Board (Philippines) website

Bangko Sentral ng Pilipinas (Selected Economic and Financial Indicators)

World Bank: Philippines Quarterly Economic Update, April 2009 (on forecast from 2009-2011)

National Statistics Office (Philippines).

ECB website on exchange rate

Philippine Institute for Development Studies (PIDS)

Department of Finance website

b) Indicators derived from the MDG

	1990 ^b	2006	2007	2008	2010 ^e	2015 ^t
Key indicators						
1. Proportion of population below 1\$/day in PPP (%)	20.2	13.6	n/d	n/d	n/d	12.15
2. Prevalence of underweight children						
3. Under 5 child mortality	34.5	24.6	n/d	n/d	n/d	17.25

4. HIV prevalence rate of women aged 15-24	80.0	32.0	n/d	n/d	n/d	26.70
	<1%	<1%	<1%	n/d	n/d	<1%
5. Proportion of births attended by skilled health personnel (%)						
6. Proportion of 1 year old children immunised against measles (%)	58.8	70.4	n/d	61.8	n/d	100.0
7. Net enrolment ratio in primary education (%)	85	92	92	n/d	n/d	100.0
8. Ratio of girls to boys in primary and secondary education (%)						
	99.1	83.2	n/d	n/d	n/d	100.0
9. Primary school completion rate (%)						
	1.0/1.1 (1991)	1.0/1.1	n/d	n/d	n/d	1.0
10. Proportion of population with sustainable access to an improved water source (%)	63.0 (1993)	71.7	n/d	n/d	n/d	100.0
11. Fixed lines and mobile telephone per 1000 inhabitants	83.0					
12. Formal cost required for business start up		93.0	n/d	n/d	n/d	n/d
13. Time required for business start up (days)	1.0/0.0					
14. GDP per capita growth rate (%)		4.3/50.75	4.4/64.8	n/d	n/d	inc.
	n/d					
15. Access of rural population to an all season road		n/d	n/d	n/d	n/d	n/d
	n/d					
16. Household electrification rate		58	58	n/d	n/d	n/d
	4.2 (2004)					
	n/d	3.3	5.1	2.6	1.5	n/d
<u>N.B</u>						
	n/d	n/d	n/d	n/d	n/d	n/d
		76.6	n/d	n/d	n/d	n/d
		(2003)				

1990b = baseline for MDGs

2010e = intermediate target / estimate

2015t = MDG target

n/d = no data available

inc. = increasing

Data explanations and sources:

Indicator 1: Data for 1990 and 2006 from the ADB Key Indicators for the Asia and the Pacific 2008 (39th edition).

Indicators 2-4: Data for 1990, 2006 and 2015 from the Philippines MidTerm Progress Report on the MDGs.

Indicator 4: 2007 data from the Country Report of the Philippines, January 2006-December 2007, UN General Assembly Special Session January 2008.

Indicator 5, 7, 9: Data from the Philippines' National Statistical Coordination Board and 2008 data are from the preliminary report on the Philippines 2008 National Demographic and Health Survey.

Indicator 6, 14: Data from the ADB Key Indicators for the Asia and the Pacific 2008 (39th edition).

Indicators 10: Data from UNstats

Indicator 11: 1990 and 2006 data from UNstats and defined as telephone lines/cellular subscribers per 100 population. For 2007, source is the Philippines' National Statistical Coordination Board (MDG watch as of July 2008).

Indicator 13: Data from World Bank: World Development Indicators databases, April 2009.

Indicator 16: 2003 National Demographic and Health Survey, National Statistics Office (Philippines).

ANNEX 2

CSP / MIP allocations

	CSP Indicative allocation	Commitments planned in 2007-10		Effective commitments in 2007-10		Commitments planned in 2011 - 2013	
	(M€)	(M€)	SBS (%)	(M€)	SBS (%)	(M€)	(SBS%)
<i>Focal area</i>							
Health		36				35	
<i>Non focal areas</i>							
TRTA		6,5				5	
Mindanao/Vulnerable populations		12				12	
Governance		6,5				17	
Total	130	61				69	

SECTOR/ THEME/ DONORS	Infra & Rural Dev	Governance	Health	Support to Mindanao Peace Process	TRA	poverty alleviation	Water & Sanitation	Env	DRR	SME/ finance	others	Educ	Energy	Macro economy	Stability	social protection	HR	PFM	Community Dev	AUP (IDPs)	Gender	Food security	Em res E
EC	√	√	√	√	√	√		√	√								√	√		√		√	
Austria									√														
Belgium	√					√		√		√			√			√			√				
CZ							√						√										
Finland											√		√										
France			√			√		√	√		√	√	√				√						
Germany		√	√	√		√	√	√		√	√			√	√	√				√			
Italy			√				√					√							√				
Netherlands	√	√												√							√		
Spain	√	√	√	√	√	√	√	√	√	√		√					√			√	√		
Sweden	√						√																
UK		√		√	√									√	√		√	√					
ADB	√	√	√				√	√		√				√									
Australia	√	√	√	√		√	√		√			√			√	√	√	√	√	√	√	√	
Canada	√	√		√	√	√		√		√							√				√		
China					√																		
Japan	√	√	√	√	√				√		√							√					
Korea		√			√	√			√														
New Zealand	√		√	√																			
UN		√		√	√	√		√															
USAid	√	√	√	√			√		√	√	√	√		√	√	√							
WB	√	√	√	√	√	√	√	√	√	√	√	√	√	√		√		√	√				
TOTAL	12	13	11	11	9	10	9	9	9	7	6	6	5	6	4	5	6	5	4	4	4	2	

ANNEX 4a



EUROPEAN UNION
DELEGATION OF THE EUROPEAN COMMISSION TO THE
PHILIPPINES

Friday, 18 September 2009
NT/CH/ D(2009)

**Subject: In-country Consultations for the Mid-Term Review of the Philippines
Country Strategy Paper 2007-2013 and MIP 2011-13**

The Delegation held a series of Mid-Term Review (MTR) consultations with civil society and local government representatives, central government departments and agencies, member states and other development partners during the months of February and March 2009. The discussions were all introduced with two PowerPoint presentations, one featuring the social and economic situation of the Philippines and the second featuring the current CSP and MIP, EC programming processes and the role of the MTR. This was followed in the case of civil society meetings by a 'Development Café' approach aimed at ensuring that group discussions were focussed on the EC's Strategy Paper (SP) and possible changes to it, and in the case of the (smaller) meetings with development partners, member states and government, by plenary discussions with the same clear focus.

The meeting with development partners (18/02/2009) broadly endorsed the position taken in the Delegation's position paper on the MTR, noting that the focal sector health and in particular the health sector reform were unlikely to be affected by the elections in 2010. There was general support for a stronger focus on governance and some suggestions that the elections might well have implications for the peace process and in consequence for programming in support of it. The consultation with Member States (18/02/2009) also endorsed a stronger focus on governance.

The meeting with government departments and agencies (12/03/2009) confirmed the EC's choice of health as main sector, but also emphasised the importance of governance and environment. The need to provide development assistance to conflict-affected Mindanao was also discussed at length.

The consultations with civil society and local development stakeholders (Cebu on 23/02/2009, Davao on 27/02/2009 and Manila on 09/03/2009) were well attended with vigorous participation. The operating context for the EC's CS was seen to be one of poor governance resulting in poor service delivery with poverty increasing while the population continues to rise. The global crisis would increase vulnerability, including of those working overseas. Migration itself was seen as at best a mixed blessing with negative impact on families as well as causing a brain drain, above all in the health sector. The need to continue development aid

in Mindanao in support of the peace process, whatever that might now be, was emphasised, as was the importance of supporting the rights of indigenous people, particularly in respect to ancestral domain. There was a need for donors to be less arbitrary in their programming.

There was a general confirmation by all participants that the EC is addressing the right sectors, apart from some questions with regard to the area of trade. With regard to the health sector, the EC was urged to focus strongly on primary and basic health care, empowering front line workers, i.e. midwives and barangay health workers. The EC should adopt a rights-based approach, including a strong focus on reproductive health rights and the rights of women in general. It should also take the brain drain of health workers into consideration. Considering the current global/national scenario and all the external factors, participants discussed and mentioned additional areas and issues for further EC support under the SP (e.g. environment/climate change and governance/justice).

There was general support for the continued EC support to local government and for a strengthened role for CSOs at the local level. The importance of supporting peace in Mindanao through development was emphasised, while it was felt that the EC should both support the expansion of the MTF and look beyond it to other partnerships. It should also build on the success of the STARCM project and focus also on worrying migration trends provoked by the conflict and associated worsening poverty. TRTA was viewed somewhat negatively as supporting an EU trade agenda. Points made were the need to orient the TRTA project towards supporting MSMEs and local markets.

With regard to potential new areas for EC support, there was a call for a stronger EC environment programme, including in addressing the issues associated with mining. There was an equally strong call for further work in governance and human rights, in particular for an extension and enhancement of the Access to Justice Programme that ended in 2008. There were also calls for migration and associated issues to be addressed in the EC's bilateral programme and for anti-corruption measures to be mainstreamed and, further, for NSAs to play a watchdog monitoring role in EC projects. With regard to selection of beneficiaries, targeting and aid effectiveness, concerns were raised that poverty stricken areas outside Mindanao should not be forgotten and that a balance be struck between funding for central and local government and between government and NSAs.

Following these initial consultations, the Delegation drafted the mid-term review document, including the Concept Paper for the MIP 2011-13, with regard to which the Delegation worked directly with relevant counter-part departments and agencies. On May 19 an initial meeting was held with NEDA at which an initial draft of the Concept Paper was presented and discussed. At NEDA's request the MTR review document was then forwarded to NEDA and a follow-up meeting was held on June 10, at which NEDA endorsed the approach outlined in the draft Concept Paper, in particular the continued selection of Health as the focal sector.

With regard to new elements in the proposed MIP, specific meetings were held with all potential counterpart agencies, chaired by NEDA, to confirm the proposed focus on and approach to local government PFM (July 30) and Access to Justice (August 24). In addition, a

migration dialogue was held with DFA and other relevant agencies on June 25, in relation to the EU-GoP negotiations on the PCA, at which the proposal to include a specific action addressing migration issues was endorsed.

The MIP Concept Paper was submitted to Relex in June. The full MIP 2011-13 drafted during July and August and final consultations were held with the MSs, Civil Society and GoP in early September. At the meeting with MSs on September 8, the MSs endorsed the draft MIP. France expressed particular appreciation for the attention paid to Climate Change.

At the meeting with Civil Society organisations on September 10, approval was expressed for the draft MIP, while a number of key suggestions for improving the text were made: including the brain-drain of health professionals as a cross-cutting theme in the Health programme; including involvement of the community in the budget preparation and execution as well as local publication of LGU accounts as results/indicators for the PFM programme; addressing fundamental policy contradictions in the environment sector with regard to mining and logging as fundamental prerequisites for work on REDD; and ensuring that TRTA beneficiaries include private sector business development service providers. The EC delegation took note of these suggestions and agreed to discuss them with NEDA.

A validation meeting for the full MIP draft was chaired by Deputy Director General Tungpalan at NEDA on 14 September. Fourteen stakeholder government departments and agencies attended. The MIP was welcomed in terms of selection of focal and non-focal areas and financial allocations. A number of changes to the wording of indicators and results were proposed. The Department of Agrarian Reform pointed out the need to include within the Acces to Justice Programme agrarian justice including legal assistance for the poor with regard to land tenure issues, since this has been the weakest part of the agrarian reform programme, which was strongly supported by the EC under the previous CSP. NEDA undertook to prepare a brief Aide Memoire summarising the points raised. In his closing remarks DDG Tungpalan expressed the GoP's satisfaction with the high degree of engagement and consultation that had characterised the drafting of the MIP and its alignment with GoP development and reform policies.

ANNEX 4b

The Mid-term review process:

Main political, economic, social and environmental developments in the Philippines

Political Situation including Governance

At present, the political scene is dominated by the approaching 2010 presidential elections, which are expected to be marred by the usual violence (more than 120 people killed in last presidential election year 2004). The president, who won the 2004 national elections amid allegations of election fraud and widespread vote-buying, is likely to complete her 6-year term, having survived a number of attempted impeachments and failed military coups. Her supporters control the House of Representatives, but she has also had to rely heavily on the support of the senior military hierarchy. Despite some policy successes – a stronger economy and fiscal position; abolition of the death penalty; combating terrorism – she remains widely (and increasingly) unpopular, and her legitimacy crisis has deepened further of late, with grand corruption scandals hounding her administration.

A disproportionate amount of the budget is allocated to highly politicised discretionary funds within a context of exceptional control over the budget by the executive. Corruption is widespread at all levels of government - from pork barrel for congressmen to a notoriously corrupt Bureau of Customs. Moreover, during the current presidency there has been a mushrooming of political appointments (often of retired military personnel) in the higher ranks of the public administration. There is little public confidence in the ability of the authorities to deliver justice and people resort to other unregulated means of resolving disputes. As a consequence, human rights violations are an everyday occurrence. The number of extra-judicial killings (estimates range from 150 to 900 since 2001, depending on whether one takes official or CSO sources), or the phenomenon of death squads operating in some major cities in the country are just some indicators of this situation. The Government continues to face threats from Muslim and Communist insurgencies and two Islamic terrorist groups (Abu Sayaf and Jemaah Islamiyah).

There have been positive developments in the peace process with the MILF, especially a Joint Statement issued by the parties in July suspending military operations/activities and agreeing to establish an International Contact Group and a Civilian Protection Mechanism. Back channel talks are ongoing, hopefully leading to an agreement on those mechanisms paving the way for the resumption of formal peace talks and the return of the over 300,000 IDPs. With respect to the Communist insurgency, however, a tentative agreement to resume talks in August has thus far not materialised over lingering differences on the release of detained Communist leaders with criminal charges that the National Democratic Front claims would be involved in the talks.

Economic

Despite posting respectable growth in recent years prior to the crisis (7.2% in 2007 and 4.6% in 2008), the economy remains plagued by structural weaknesses. At the 2008 Philippines Development Forum, the World Bank cautioned that in order to achieve the Philippines' goal of joining the ranks of advanced nations, a high level of growth would need to be sustained for at least a generation⁷. Moreover, in order to make a serious dent in poverty levels, it would need to become more inclusive, while sustained high growth would need increasingly to come from higher investment, greater productivity increases, lower transactions costs and better technology.

The country's per capita income, overtaken by China at the beginning of the decade, has been struggling to keep up with one of the fastest growing populations (>2% annual growth rate) among middle income countries in the region. This is compounded by the high level of inequality across income brackets, regions, and sectors. Likewise, job generation has barely kept pace with labour force growth, leading unemployment to persist at over 7%, the second highest among MICs in the region. Unemployment would be even higher if not for the growing number of Filipinos working overseas, whose remittances now account for some 10% of GDP (US\$ 16.4 billion in 2008). These remittances have fuelled strong consumption spending, which now dominates the economy at some 70% of GDP, but at substantial social costs.

In contrast, investments have been weak. Despite recent improvements, fixed capital formation at 15% of GDP remains below its level at the beginning of this decade and is still the lowest in the region. UNESCO reported that the Philippines spends only 0.15% of GDP on R&D as of 2003, below the average for its per capita income—and down from 0.25% in the early 1990s. Investments in agriculture and on efficiently connecting lagging regions and provinces to the growth centres will be particularly important in making growth more inclusive.

Public investments in physical (capital expenditures at some 2% of GDP) and social capital have been constrained by the precarious fiscal situation. The government managed to avert a fiscal crisis at the middle of this decade, partly through some revenue reforms, but also through expenditure compression and asset sales. The current economic crisis is putting renewed pressure on the fiscal position, with revenues declining significantly. The resulting inadequacy in infrastructure, including in electricity and transport, has in turn constrained private investments, given the increased costs of doing business, and has contributed to disparities in regional growth. The government's failure to introduce policies that encourage, facilitate and sustain innovation have also discouraged investments in R&D, lead to low productivity in manufacturing, and to poor diversification and low value-added in exports.

⁷ Philippines Development Report 2008, World Bank.

The Philippines is weathering the global economic crisis better than expected. While the economy has clearly slowed down, with the export sector particularly hard hit, the risks of a recession seems to be receding, with the consensus GDP growth forecast at some 1.5% for 2009. Improving consumer sentiment, sustained remittance flows, and accommodative monetary and fiscal policies are providing a counterweight to weak external demand and poor investor confidence. The impact of the crisis on unemployment seems to have been muted, but adjustments in pay and work hours appears to have resulted in greater underemployment. The brunt of these employment impacts seems to have been borne by the lower-middle income class, the low-income class and the poor. Moreover, with an expansionary fiscal stance and falling revenues (due to cyclical, structural and tax administration reasons), the fiscal deficit is expected to increase to some 3.5% of GDP (net of privatisation). More generally, there is a growing concern that public spending in general will become more and more politically motivated as the election fever rises. Although debt levels are broadly sustainable, the World Bank believes there is a significant probability that the National Government debt could exceed 80% of GDP over the next five years. High gross financing requirements, estimated at more than 18% of GDP this year and almost 20% next year adds further fiscal risk.

Social

The Philippines is ranked as a lower middle income country. Despite high economic growth in recent years, official poverty estimates show that between 2003 and 2006, when GDP growth averaged 5.4 percent, poverty incidence increased from 30 percent to 33 percent, almost as high as it was in 2000. This meant that of a population of 87 million in 2006, 27.6 million Filipinos were living below the poverty line - more than ever before.

Analyses of the reasons why growth has historically not translated into greater poverty reduction point primarily to the high rate of inequality in the Philippines—across income brackets, regions, and sectors. Income inequality has fallen slightly but remains higher than many other countries in the region. The country's Gini coefficient at 0.45 is higher than it was 20 years ago and is also the highest in Southeast Asia. The income of the richest decile of the population is about 19 times that of the poorest decile (2006).

In addition to slow progress in reducing income poverty, there has been mixed progress in addressing the non-income dimensions of poverty, particularly as they relate to human development outcomes. The Philippines ranked 102nd out of 179 countries, with a score of 0.745, in the 2006 Human Development Index (HDI)⁸, down from 90th out of 177 countries, with a score of 0.771, in 2005. The 2007 Mid-term Progress Report on the **Millennium Development Goals** showed mixed results. Gains have been made with regard to certain goals and the targets to eradicate extreme poverty and hunger, increase enrolment rate for girls, reduction of infant mortality, are likely to be met. On the other hand, three **MDGs** are in the category of least likely to be met: achieving universal primary education (Goal 2),

⁸ Human Development Report 2008 (UNDP)..

improved maternal health (Goal 5) and combating HIV/AIDS, malaria and other diseases (Goal 6).

Poor performance in these areas is particularly acute with regard to women's and children's health and nutrition, reflected in the figure of 28% underweight 0-5 year olds⁹ and a maternal mortality rate of 162 per 100 000 live births¹⁰. Achievement of MDG 2 is also threatened with a downward trend in primary school enrolment from a 2000 high of 96.8% to 83.2% in 2006, below the 1990 level.¹¹ The lack of progressive policy on reproductive health has resulted in a situation where 9 of the 11 women who die every day in the Philippines die of pregnancy-related causes, while abortion has become the de facto means of avoiding unwanted pregnancies¹². The lack of family planning has seen Philippines population grow at a rate (>2%) significantly higher than its most comparable neighbours, undermining poverty reduction efforts and access to quality social services, and has the potential to worsen poverty, malnutrition and maternal and child mortality. A bill which will facilitate the provision of modern contraceptive methods through the health system is now in Congress, where its chances of adoption look high, if the filibustering tactics of the opposition can be overcome.

The **Medium-Term Philippine Development Plan (MTPDP)** 2004-2010 has a declared main objective of reducing poverty and ensuring a better quality of life for all citizens. The fact that indicators of poverty reduction and social development progress have remained static or worsened in recent years indicates that the MTPDP has not so far shown itself to be on track for delivering its declared objective.

Improving human development outcomes requires increasing spending on the social sectors, improving service delivery and improving the poverty focus of service delivery. In addition, greater attention must be paid to social protection measures to protect poorer households from the high degree of vulnerability to shocks. The GoP has taken some steps in the right direction. The Government budget allocation for the social sectors, in particular health, has increased continuously over the last 3 years from PHP 16.074 billion in 2006, to PHP 18.356 billion in 2007 and to PHP 22.896 billion in 2008. These translate to a 14.2% and 24.7% increases, from 2006 to 2007 and 2007 to 2008, respectively, although the overall share of Health in the budget remains low.

The Philippines is characterized by a severe lack of social protection. Since 2008 the GoP has begun to roll out a conditional cash transfer programme to support the poorest families, supported by a WB loan. In response to the global crisis, as the socially oriented counterpart

⁹ HDR 2008.

¹⁰ 'Country specific strategic analysis for reaching the health related MDGs in the Philippines', Unicef, 2008

¹¹ Source: GoP National Statistics Coordination Board

¹² The University of the Philippines Population Institute estimates 560,000 induced abortions yearly, while some 50% of the 3.4 million pregnancies in 2008 were unintended.

to its economic resiliency plan, the GoP is currently finalizing a 'Comprehensive Livelihood and Emergency Employment Programme.'

Environmental and energy trends

The state of the environment has continued to worsen. Only 19% of the country's land area remains forested. In recent years, deforestation has been increasingly blamed for soil erosion, flooding, and drought. This scenario is worsened by the resurgence of an exploitative mining industry, encouraged by GoP economic planners as an essential engine of economic growth. Many mining concessions cover areas of high environmental importance claimed by and/or already titled to indigenous communities. Although a positive trend can be observed with regard to prevention of illegal logging, watershed management, prosecution of environmental crimes ('green' courts established in 2007) and better inter-agency co-ordination (DENR/DA/DAR 'convergence' process), the underlying causes of environmental degradation remain largely unaddressed (e.g. high population pressure, rapid/uncontrolled urbanisation, poor environmental governance). Public resources for conservation are still very low, while ODA funding for the environment has seen a 35% decline between 2001 and 2008. A number of responsibilities have been devolved to local governments, but without additional financial resources.

The Philippines is particularly vulnerable to the impacts of climate change. Increasing temperatures are already causing irregular monsoons and may also be responsible for the higher recurrence of extreme weather events such as "super typhoons." Under a global "business-as-usual" scenario for CO₂ emissions, the temperature increase in the Philippines could be as much as 2.4° Celsius by 2080. Droughts will make the western side of the country drier (including the Metro Manila area), while more rain will inundate the eastern side of the country (Quezon, Samar, Leyte). Rising sea levels are also of course a matter of grave concern in this archipelagic country. Vulnerability is greatest among the poor. There are signs that the issue of climate change is gaining political momentum (e.g. creation in 2009 of the Presidential Task Force on Climate change and the Senate Oversight Committee on Climate Change), but this institutional impetus has not yet been translated into a proper integration of climate change adaptation into development policies.

New EC/EU policy objectives and initiatives.

Climate change is now a key priority for the EU that is highly relevant to the Philippines, due to the country's high exposure to climate change effects. The country's own policies on curbing emissions (although the Philippines has not set any emissions' reduction binding target) through the promotion of renewable energy sources are fully aligned with the EU position that every country (including developing countries) should at least try to reduce the growth of their emissions. The Philippines is also starting to promote mitigation measures. The Delegation mainstreams climate change in its existing programme and now plans to develop a specific action to enhance local capacities to adapt to climate change.

Few countries have as many of their citizens living abroad as the Philippines, or depend so greatly on **migration** for their economic vitality. For more than 30 years, export of temporary labour has been an explicit response to double-digit unemployment rates. The government has developed a sophisticated policy regime to promote and regulate labour emigration. However, migrants' advocates say that the efforts to protect legal migrants have been inadequate and that abuse and trafficking of irregular migrants has not been properly addressed. In line with the firm EU commitment on furthering migration cooperation with partner countries, also bearing in mind the recommendations of the EP's report on the DCI (of 11/02/09), the Delegation will intensify the migration dialogue with the GoP and has included a migration component within the Governance section the MIP 2011 – 2013.

The Food Facility constitutes the main EU response to the worsening global **food security** situation. The Philippines is the world's largest importer of rice and has in consequence been badly affected by the crisis, which has impacted in particular on the poor. Under the Food Facility, the EC has earmarked a total of €31.9 million for actions to be implemented in the Philippines (the sixth largest allocation world-wide), which will fund a raft of projects implemented by international organizations (tentatively IFAD, FAO and WFP), together with a € 11.3 million allocation through a call for proposals. Local governance aspects of implementation will benefit from synergy with the EC's on-going and proposed support to local governance.

The new **EU trade policy** will help developing countries to recover from the crisis while also helping them to fulfil their existing obligations. The MIP 2011-2013 will include a TRTA component fully embedded in a wider economic development and integration strategy focusing on capacity building to fulfill existing obligations while also addressing new areas such as investment climate.

Negotiations on an EU-Philippines Partnership and Cooperation Agreement started in February 2009. A second round is scheduled on 6-7 October in Manila. No insurmountable difficulties are anticipated for this comprehensive framework governing the broad range of EU-Philippines relations, although provisions on human rights/ICC, migration and IPRs will require careful handling.

Aid Effectiveness

The Philippine efforts towards enhanced harmonization and aid effectiveness predate the Paris Declaration. There is a Harmonisation Committee, chaired by the Department of Finance (DOF) and co-chaired by NEDA, with the Department of Budget and Management (DBM) and the Commission of Audit (COA) as members. The DOF co-chairs with the World Bank the annual meetings of the Philippines Development Forum (PDF). Eight sector-specific working groups, each co-chaired by a government agency and a development partner meet periodically and feed into the annual PDF meeting. The Delegation participates in all of them except for 'infrastructure', and it is co-convenor of the sub-working group on health. The PDF

has clearly evolved from the traditional Government - Donor Consultative Group meeting that included pledging sessions into a more focused forum with substantive policy dialogues among relevant stakeholders on key thematic areas. However, there is still a need to focus more coherently on the specific policy issues affecting poverty reduction and inclusion.

Under the Current MIP 36 million out of a total budget of 61 million is allocated to the Health Sector Policy Support Programme (HSPSP), of which 35 million (58%) will be allocated to budget support. The 2011-2013 MIP will reflect the same commitment to attaining or surpassing the target for use of country systems, but taking into account the need for specific approaches in support of the Autonomous Region of Muslim Mindanao (ARMM).

In May 2009, the Delegation participated as the first pilot delegation for the implementation of the "Backbone Strategy" with a training seminar for staff, counterparts and partners, particularly those associated with the HSPSP and the TRTA II project. Moreover, the Department of Health (DoH) has called for the TA component of the HSPSP to be included within the budget support allocation to be managed by the DoH.

Under the new MIP efforts will be made to implement the Backbone Strategy and to achieve all four specific targets on aid effectiveness, not only with respect to the HSPSP, but also in the design and implementation of all other new actions.

Results, performance and lessons learnt

Support to the Health Sector Reforms in the Philippines

Some success has been achieved in health sector reform at central level through the development policy and strategy papers and capacity development of central government agencies. However, major challenges remain especially with regard to improving local level service delivery. Major inequities in access to health facilities and services still exist as the share of total health expenditure paid out of pocket¹³ remains high. As a result benefits have yet to reach the main target population, i.e. the poor and disadvantaged. Several reviews and consultations with stakeholders have confirmed the relevance and importance of providing support to the health sector reform and the need for it to continue in order to ensure the country achieves MDGs, especially Goal 5. The Philippines also continues to meet the eligibility criteria for budget support (see also Annex Report on BS).

¹³ Unofficial figure from 2006 is 57% OOP, latest official statistics from 2005 rate the OOP expenditures at 49%

EC support through a mix of aid modalities (financial support, including BS and technical support) has proven valid, although the planning, approval and fund release processes introduced by DoH for local governments have resulted in long and tedious processes. In comparison with SBS, the WB TF has not shown any added value, but has rather proven to be additionally complicated, since WB uses the same government procedures followed by an additional review by the WB. DoH has now initiated the streamlining and facilitation of procedures and deconcentration of responsibilities to the regional Centres for Health Development (CHD) in order to manage the nationwide roll-out of F1 to all provinces, which is now underway and will be supported by HSPSP II through the single modality of SBS, incorporating performance grants to the LGUs implementing the reform and demand driven technical cooperation to strengthen the capacity of the CHDs to support the LGUs in the efficient and sustainable implementation of the reform.

Support to Enhance Good Governance

The decentralization policy of the Philippines has been positive in terms of making government more accessible, creating spaces for participation, and encouraging innovation. However, this decentralization policy has not always resulted in efficient, pro-poor service delivery. Responsibilities devolved to LGUs surpass their financial and human resources. An increase in the Internal Revenue Allotment is not foreseen in the immediate future, and alternative sources of revenue are limited for most LGUs. At the same time, while recognizing that LGUs do indeed work on overstretched budgets, there is also a high level of inefficiency in public finance management, which contributes to the LGU's ineffectiveness in delivering services.

The demand-driven nature of the Strategic Projects Facility has been welcomed as an approach that motivates LGU reform. 26% of all concept notes, and 30% of those selected were submitted by LGUs as main applicants. However, EC procedures and policies will tend to favor LGUs which can already count on higher institutional capacities than the average.

Support to Boost Trade and Investment Flows

Given that the TRTA II project under MIP 2007-2010 has only just completed its inception phase, lessons learnt relate in the main to its precursor programme. Overall the administration's absorption capacity is high, reflecting a well educated work force. Progress achieved in the technical fields of SPS and TBT seem easier and are more easily documented compared to trade policy with external factors (DDA, EU-ASEAN FTA) playing a major role. Trade facilitation is dogged by strong internal resistance to reform at the Bureau of Customs in a highly lucrative and politicised environment with insufficient external drivers of change. Tendering procedures proved to be a particular challenge in TRTA I. In line with the EC's commitment to aid effectiveness, the possibility of conducting the five pillar assessment to permit the use of GoP procedures could be explored in relation to a further TRTA action under MIP 2011-13.

Support to the Mindanao Peace Process

While a full evaluation of the MTF-RDP is ongoing, some preliminary social and impact assessments have been conducted in the past 2 years¹⁴. In general, the results of these impact assessments have been overwhelmingly positive and showed that MTF-RDP has made a real difference in communities and their members' lives, in both tangible and intangible ways. This positive view is echoed in the final report of the results-oriented monitoring (ROM) mission undertaken from March 9-12, 2009. In general there are strong indications that the MTF-RDP has played a role in helping to bring peace and reconciliation at the community level. The break-down of peace talks in August 2008 and ensuing violence and mass displacement have however led to a need for reconsideration with regard to the MTF's future direction. A phase two with larger-scale investments through local governments is no longer considered feasible in the immediate future. Recent discussions with the other major donors contributing to the trust fund have concluded that the program should continue both to widen the geographical scope of its assistance to include more communities, while also deepening its engagement through supporting a scaling up of activities in communities where initial small-scale activities have been successful.

(II) PROPOSED RESPONSE IN 2011-2013.

The CSP remains relevant in the light of the EU's policy towards the Philippines, the economic and political situation in the country, and the implementation of the CSP to date. This has also been endorsed by an extensive consultation process, which has included civil society, government, MS and other development partners. NEDA is in the process of finalizing the new Medium Term Philippine Development Plan to cover the period from 2011-2016 with the aim of presenting it to prospective candidates in time for next year's elections. In a preliminary discussion NEDA has indicated that the plan identifies the following key sectors: health, education, agriculture, roads, technology and safety-nets. In maintaining Health as its focal sector with >50% of the total allocation, the 2011-2013 MIP remains well aligned with GoP development policy. Achievement of the MDGs is now threatened by the global economic crisis, which strongly justifies continued support to the delivery of social services – **health** - as the focal sector under the 2011-13 MIP

In the field of **governance** the impetus of the EC's successful work in core governance will be maintained through a follow up programme to expand and sustain the achievements of the **Access to Justice** programme. This will fit strategically with the proposed EUJAM project to support the eradication of extra-judicial killings, which is to be funded under the Stability Instrument (and which could require follow up from DCI upon its expiration in mid to end 2010). The need to systematically enhance service delivery by local governments through better governance also argues in favour of a project to support local government **PFM**. At the same time there are hopeful signs that the GoP is moving towards a comprehensive reform of PFM, which may provide a harmonised framework for an EC intervention.

¹⁴ Preliminary Impact Assessment, October 2008 and Interim Assessment on the Economic Impact of MTF-RDP Sub-Projects, January 2009

A recently completed study commissioned by the Delegation to look at investment climate issues should inform thinking about future **TRTA** support, expanding from support for trade regulation. There may also be scope for including support for fair trade, which will strengthen the linkage between the TRTA programme and other key elements in the CS supporting poor rural communities. This is expected to involve support for MSME development, which was strongly advocated for during the MTR consultation process and was raised by the EP during its scrutiny of the CSP.

At the same time, climate change is now a key priority for the EU, appearing as a new Community policy in the Lisbon Treaty in January 2007, as part of an integrated climate change and energy policy. As well as ensuring that climate change is mainstreamed across the programme, the MIP 2011-2013 proposes a specific intervention to enhance community adaptation to **climate change**. However, rather than conceiving this as an additional non-focal sector, the approach will be to cluster it with the **Mindanao Trust Fund** as an activity that directly addresses the needs of **vulnerable people**. The Delegation will seek to ensure that these two DCI actions are complementary to DRR activities funded by DIPECHO and actions for displaced people funded under the regional AUP programme, as well as Food Facility projects that provide food for work and for assets (WFP) and ECHO funded humanitarian relief in Mindanao.

Migration, which is now a core priority for the EU, is particularly relevant in the Philippines with its high dependence on remittances from citizens living and working abroad. As part of the enhanced governance programme the MIP 2011-2013 will include a component addressing aspects of migration management.

In terms of aid modalities and aid effectiveness, it is clear that as the health reform broadens its scope and begins to reach a mature platform where performance in terms of health outcomes becomes meaningful, budget support will remain the chosen mode for delivering EC support. At the same time, given the adequacy of procurement regulation, it would clearly be feasible to consider the five pillar assessment to enable the greater use of government systems in projects in TRTA and possibly also in governance which are to be implemented through decentralized management under the 2011-13 MIP.

ANNEX 7

List of Abbreviations

A2J	Access to Justice
AAP	Annual Action Programme
ARMM	Autonomous Region in Muslim Mindanao
ASEAN	Association of South East Asian Nations
BDA	Bangsamoro Development Agency
BIR	Bureau of Internal Revenue
BS	Budget Support
CBA	Community Based Adaptation to Climate Change
CBFM	Community-Based Forest Management
CDD	Community Driven Development
CfP	Call for proposals
CHD	Centre for Health Development
COA	Commission on Audit
CS	Country Strategy
CSP	Country Strategy Paper
DA	Department of Agriculture
DCI	Development Cooperation Instrument
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DILG	Department of Interior and Local Governance
DOF	Department of Finance
DoH	Department of Health
DoJ	Department of Justice
DRR	Disaster Risk Reduction
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
EMP	Environmental Management Plans
eNGAS	electronic National Government Accounting System
ENRTP	Environment and Natural Resources Thematic Programme
EP	European Parliament
FDI	Foreign Direct Investment
FLEGT	Forest Law Enforcement Governance and Trade
FTP	Future Trade Policy
GIDA	Geographically Isolated Disadvantaged Areas
GoP	Government of the Philippines
HSPSP	Health Sector Policy Support Programme
HSRA	Health Sector Reform Agenda
JNA	Joint Needs Assessment
IACAT	Inter-Agency Council Against Trafficking
IDP	Internally Displaced People
IP	Indigenous People
IMF	International Monetary Fund
LGU	Local Government Unit
MDG	Millennium Development Goals
MEDCO	Mindanao Economic and Development Council
MHSPSP	Mindanao Health Sector Policy Support Programme

MILF	Mindanao Islamic Liberation Front
MSME	Micro, Small and Medium Enterprises
MTF-RDP	Mindanao Trust Fund Reconstruction and Development Program
MTPDP	Medium Term Philippines Development Plan
NAMRIA	National Mapping and Resource Information Authority
NGO	Non Governmental Organisation
NCIP	National Commission for Indigenous People
NEDA	National Economic and Development Authority
NZAID	New Zealand Agency for International Development
OF	Overseas Filipinos
OFW	Overseas Filipino Worker
OPAPP	Office of the Presidential Adviser on the Peace Process
PDF	Philippines Development Forum
PDR	Philippines Development Report
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PHILJA	Philippine Judicial Academy
PHP	Philippine Peso(s)
REDD	Reduced Emissions from Deforestation and Land Degradation
SBS	Sector Budget Support
SC	Supreme Court
SDAH	Sector Development Approach to Health
SOM	Senior Officials' Meeting
SPF	Strategic Project Facility
SPS	Sanitary and Phyto-Sanitary
TF	Trust Fund
THB	Trafficking in Human Beings
TRA	Trade Related Assistance
TRTA	Trade Related Technical Assistance
UNDP	United Nations Development Programme
VAWC	Violence Against Women and Children
WB	World Bank
WGI	World Governance Indicators
WTO	World Trade Organisation