

THE EC-PHILIPPINES

STRATEGY PAPER

2007-2013

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LIST OF ABBREVIATIONS

ADB	-	Asian Development Bank
AFTA	-	ASEAN Free Trade Area
AIDS	-	Acquired Immune Deficiency Syndrome
ALA	-	Asia and Latin America
AMLPG	-	Anti-Money Laundering Project
APEC	-	Asia Pacific Economic Cooperation
APRIS	-	ASEAN Programme for Regional Integration Support
ARCBC	-	ASEAN Centre for Biodiversity Conservation
ARMM	-	Autonomous Region in Muslim Mindanao
ARSP	-	Agrarian Reform Support Project
ASEAN	-	Association of Southeast Asian Nations
ASEM	-	Asia-Europe Meeting
AUSAID	-	Australian Aid
BESRA	-	Basic Education Sector Reform Agenda
BM	-	Border Management
BoC	-	Bureau of Customs
CAGR	-	Compounded Annual Average Growth
CAS	-	Country Assistance Strategy
CAT	-	Convention Against Torture
CATAG	-	Catanduanes Agricultural Support Programme
CBFM	-	Community-Based Forest Management
CECAP2	-	Central Cordillera Agricultural Programme, Phase II
CEIE	-	Cultural and Environmental Information Exchange
CFIF	-	Cebu Furniture Industries Foundation
CPP	-	Communist Party of the Philippines
CPS	-	Consolidated Public Sector
CSO	-	Civil Society Organisations
SP	-	Strategy Paper
DA	-	Department of Agriculture
DBM	-	Department of Budget and Management
DCECI	-	Development Cooperation and Economic Cooperation
Policy		
DDA	-	Doha Development Agenda
DENR	-	Department of Environment and Natural Resources
DepEd	-	Department of Education
DFA	-	Department of Foreign Affairs
DM	-	Disaster Management
DMP	-	Disaster Management Plans
DoF	-	Department of Finance
DOH	-	Department of Health
DSWD	-	Department of Social Welfare Development
DTI	-	Department of Trade and Industry
EC	-	European Commission

EDSA	-	Epifanio Delos Santos Avenue
EEC	-	European Economic Community
EIB	-	European Investment Bank
EL	-	Estimated Likelihood
EPA	-	Economic Partnership Agreements
EPIRA	-	Electric Power Industry Reform Act
ERP-CASCADE	-	Economic Self-Reliance Programme, Caraballo and Southern Cordillera Agricultural Development
FIES	-	Family Income and Expenditure Surveys
FLEMMS	-	Functional Literacy Education and Mass Media Survey
FTA	-	Free Trade Agreement
GAD	-	Gender and Development
GATS	-	General Agreement on Trade Services
GDI	-	Gender Development Index
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
GOV	-	Government of the Philippines
GPA	-	Government Procurement Agreement
GSP	-	Generalised System of Preferences
GTZ	-	German Society of Technical Cooperation
HDI	-	Human Development Index
HRD	-	Human Resource Development
HSRA	-	Health Sector Reform Agenda
ICC	-	International Criminal Court
ICCPR	-	International Convention on Civil and Political Rights
ICSP	-	Interim Country Strategy Programme
ICT	-	Internet and Communication Technologies
IDP	-	Internally Displaced People
ILO	-	International Labour Organisation
IMAMIS	-	International Master of Applied Mathematics and Sciences
Information	-	
IML	-	INGRIN Multimedia Lexicon
IOM	-	International Organisation for Migration
IP	-	Indigenous peoples
IPL	-	International Poverty Line
IRA	-	International Revenue Allotment
ISMAT	-	Investing in Sustainable Marine Aquarium Trade
IT	-	Information Technology
ITCAN	-	Information and Communications Technology Capacity-Building for Asia Network
JBIC	-	Japan Bank of International Cooperation
JICA	-	Japan International Cooperation Agency
JNA	-	Joint Needs Assessment
LGUs	-	Local Government Units
MDG	-	Millennium Development Goals
MDTF	-	Multi-Donors Trust Fund for Mindanao

MILF	-	Moro Islamic Liberation Front
MMR	-	Maternal Mortality Rate
MNLF	-	Moro National Liberation Front
MS	-	Member States
MIP	-	Multi-annual Indicative Plan
MTF	-	Mindanao Trust Fund
MTPDP	-	Medium Term Philippine Development Plan
MTPIP	-	Medium Term Public Investment Program (MTPIP)
MTR	-	Mid-Term Review
NAPC	-	National Anti-Poverty Commission
NDCC	-	National Disaster Coordinating Council
NDF	-	National Democratic Front
NDS	-	National Demographic Survey
NEDA	-	National Economic Development Authority
NGO	-	Non-Governmental Organization
NIPAP	-	National Integrated Protected Areas Programme
NPA	-	New People's Army
NPC	-	National Power Corporation
NSA	-	Non-State Actors
NSO	-	National Statistics Office
ODA	-	Official Development Assistance
OFW	-	Overseas Filipino Workers
OIC	-	Organisation of Islamic Countries
PCHR	-	Philippine Commission on Human Rights
PDF	-	Philippine Development Forum
PFM	-	Public Finance Management
PHANSUP	-	Philippine HIV/AIDS & NGO Support Programme
PNP	-	Philippine National Police
PPP	-	Purchasing Power Parity
PTFPP	-	Palawan Tropical Forest Protection Programme
QU4RAD	-	Quality Network for Rational Drug Management in primary health care in Asia and Europe
RAC	-	Reste à Contracter (Balance to be Contracted)
RAL	-	Reste à Liquider (Balance to be Paid)
RTA	-	Regional Trade Agreement
SDAH	-	Sector Development Approach for Health
SEA	-	South East Asia
SEABCIN	-	South East Asian Botanical Collections Information
SFI	-	Schools First Initiative
SHI	-	Social Health Insurance System
SI	-	Stability Instrument
SME	-	Small Medium Enterprises
SPF	-	Strategy Projects Facility
SPM	-	Strategy Planning Matrix
SPS	-	Sanitary and Phytosanitary Standards

STARCM	-	Support to Agrarian Reform Communities in Central
Mindanao		
SWAp	-	Sector Wide Approach
SWS	-	Social Welfare Stations
TA	-	Technical Assistance
TBT	-	Technical Barriers to Trade
TRA	-	Trade Related Assistance
TREATI	-	Trans-regional EU-ASEAN Trade Initiative
TRTA	-	Trade-Related Technical Assistance
UDP	-	Upland Development Programme
UN	-	United Nations
UNDP	-	United Nations Development Programme
UNESCO	-	United Nations Educational, Scientific and Cultural
Organisation		
UNFPA	-	United Nations Population Fund
USAID	-	United States Agency for International Development
WB	-	World Bank
WESAMAR	-	Western Samar Agricultural Resource Development
Programme		
WHO	-	World Health Organisation
WTO	-	World Trade Organisation

EXECUTIVE SUMMARY

The Philippines is ranked as a lower Middle Income Country, but is beset **by extreme inequality of wealth distribution**. While the Philippines is not a poor country, it is nevertheless a country with a lot of poor people: about 30 % of its total population, **some 30 million people, live below the National Poverty Line**. The country has not achieved sufficient economic progress over the past decades to substantially reduce poverty, due mainly to high population growth, lack of employment creation, rampant corruption, feudal politics and insurgencies, one communist-inspired, the other triggered by Islamic separatism. Combined with the lack of a national policy to slow its 2.3% annual population growth, its **ability to achieve the Millennium Development Goals (MDGs) is seriously compromised**.

The Philippines lags economically behind the rest of the region and has recently been facing **a severe fiscal crisis**, with the highest deficit in the region of 5 % of GDP. At the same time it needs to service a national government debt of 78% of GDP

The Philippines is witnessing an **erosion of confidence in elected government** and political institutions, coupled with a feeling of impotence to achieve substantial change towards a more equitable distribution of wealth. Although some measures to redress the fiscal balance have been taken, more economic reforms are necessary to sustain the momentum.

The main challenges for the Philippines are to:

- **reduce poverty** through stronger job creation and better **access to services, especially social services**, as well as to employment and income earning opportunities for the poor; and
- achieve a more equitable distribution of wealth through **economic, social and political reforms**.

In this context, the overarching objective of Community support for the Philippines is the sustainable reduction of poverty. This objective will be pursued through the provision of assistance to equitable access to social services through budget support and sector-wide approaches (on the basis of decentralised development, i.e. through local government units). This will be complemented by a focused range of actions funded through various thematic and regional budget lines and other programmes.

Under the Development Cooperation Instrument (DCI) an indicative allocation of € 130 million has been earmarked for the Philippines for the period 2007-2013. These resources may be supplemented by projects and programmes financed under the regional programmes for Asia and under various thematic programmes.

EC cooperation for the period 2007-2013 will focus on:

- helping the Philippines **meet its MDGs**, by supporting a more equitable **access to quality basic social services** through budget support and sector-wide approaches;

- other actions to support the Philippines in its economic, social and political **reform processes**, by providing support to **boost trade and investment flows**, to **restore peace and security**, especially in Mindanao, and to deepen **dialogue on governance** with and among all sectors of society.

The MIP 2007-2010 will represent 46% of the total envelope for the Philippines (approximately € 61 million)

The MIP 2011-2013 will represent 54% of the total envelope for the Philippines (approximately € 69 million)

Focal sector: Support for the Philippines to the delivery of basic social services

Non-focal sectors: Support to boost trade and investment flows

Support to enhance good governance and to promote reforms

Support to the Mindanao peace process

Given the envisaged concentration of assistance, cross-cutting issues such as improvement of governance, human rights issues, gender, children and indigenous peoples' rights, social dimension of globalisation, cultural issues, environmental protection and conflict prevention will be systematically mainstreamed in all development endeavours covered by this CSP.

Activities carried out in the field of higher education will be financed within the context of the regional programming for Asia.

The SP is fully in line with the priorities outlined in the Philippine's Medium-Term Development Plan (2004-2010). EC assistance will be provided wherever possible through sector policy support, so as to ensure effective policy dialogue, enhance Government ownership and co-ordination with other donors while keeping transaction costs low. The outcome of the Peace Process in Mindanao will have an influence on the overall strategy towards the country and may entail further fine tuning of the priorities laid down in this document.

1. COUNTRY ANALYSIS

The Philippines is a tropical archipelago made up of about 7,100 islands with a land area of 300,000 km² stretching over an area of 800,000 km². It has 86 million people (half of them living in urban areas) and 110 ethno-linguistic groups. It is the third largest English-speaking country in the world, though this competitive edge is shrinking.

1.1. Analysis of the political situation

The current President, Mrs. Gloria Macapagal-Arroyo was elected in the fiercely contested May 2004 elections. While elections are free and universal in the Philippines, there is regular evidence of vote buying, cheating and intimidation of voters. However, after complaints had been lodged by the Opposition, President Arroyo's six-year term-in-Office, expiring in 2010, has been endorsed by the Supreme Court.

The afore-mentioned elections ushered in a clear majority of pro-administration members in both the House of Representatives and the Senate, as well as a majority of governors and mayors. However, allegations of election rigging have triggered numerous Opposition and civil society protests leading to the resignation of 10 cabinet members in July 2005. The resulting political instability decreased the likelihood of introducing far-reaching economic and social reforms. Even before this crisis, the Administration had delivered a few of the needed reforms relating to the social sectors, the tax system, and for poverty reduction. The constitutionality of the tax reforms, especially the expansion of VAT was challenged in the Supreme Court, which finally upheld the constitutionality of these fiscal reforms allowing them to be implemented as of 1st November 2005 and leading to some macroeconomic improvements.

A revision of the Constitution with the aim of shifting to a parliamentary form of Government is high on the President's agenda. Members of a special Constitutional Commission were appointed by the President to prepare reform proposals for a revision of the Constitution. The proposals have received mixed reactions from the House of Representatives and the Senate and civil society in general, while a petition for a people's initiative to amend the Constitution has just been thrown out by the Supreme Court. In any case, additional reforms would in any case be needed to effectively address structural problems such as the global socio-economic inequity, the existence of political dynasties, the absence or lack of implementation of thematic programmes in political parties and inefficiencies in the judiciary.

The Philippines risks an erosion of confidence in elected government and in its political institutions, which in some sectors of an otherwise dynamic civil society creates a feeling of helplessness to achieve substantial reforms for more equity and transparency.

Yet the Philippines has a long democratic tradition, a vibrant civil society and a free press.

Human rights concerns in the country relate to the penal system and violence against vulnerable groups¹. Progress achieved in the field of human rights in recent years such as the abolition of the death penalty in 2006, has been overshadowed by a high number of unresolved journalist killings (9 in 2005 alone). As a result, the country ranks 142nd on the worldwide press freedom index out of a total of 168 countries.²

On 24 February 2006, a “State of National Emergency” was declared by the Government following an alleged coup attempt by some elements of the military. Although the state of emergency was lifted soon thereafter, political strife continues with new impeachment procedures being launched against the President, though the latter continues to demonstrate stamina and determination to complete her mandate. Since the ousting of long-time President Marcos in 1986, subsequent democratically elected Governments had suffered from political instability due to real and imaginary coup attempts.

The Philippines has a history of high inequality in the distribution of its resources and of internal armed conflicts. Beside the more institutionalised communist and separatist Islamic guerrilla movements, the country is also faced with the phenomenon of transnational terrorism. Terrorist attacks of a larger scale have receded since the bombing of the “Super Ferry” in Manila Bay in February 2004 by Abu Sayaf which killed over 100 people. Nevertheless, fighting and bomb attacks continue to occur, especially in Mindanao, where the poorest provinces with the lowest literacy rate and life expectancy are located. Islamic groups such as Abu Sayaf and Jemaah Islamiyah, possibly linked to the Al-Qaeda network, have benefited from the breeding ground of poverty and long-term separatist Muslim insurgencies in the southern Philippines.

Peace talks between the Government and the Moro Islamic Liberation Front (MILF) are continuing despite several clashes between MILF splinter groups and the Armed Forces, while peace negotiations with the communist-led National Democratic Front have been suspended since August 2004. The achievement of a lasting peace with those rebel movements is not just in the interest of the Filipino people as it would enable poverty reduction and real development in conflict affected areas, but it would also contribute to regional stability and to the global fight against terrorism³.

Filipino foreign policy focuses on continuing the privileged relationship it enjoys with the US, on the promotion of migration issues and on its neighbours in the region. The US remains the most important security, political and economic partner for the Philippines. After 11 September 2001, the US and the Philippines signed a Visiting Forces Agreement,

¹ There are ongoing EC thematic projects implemented by European and Philippine NGOs that address the issue of human trafficking and displacement of indigenous peoples.

² This may seem contradictory to the previous statement of the existence of a free press but it is not. Filipino journalists are free to write whatever they want as there is no censorship by Government. There is little quality control and verification of press news before these are published resulting in many partially incorrect press articles and a lot of hear-say. When journalists report on corruption or other embarrassing issues for certain individuals, sometimes assassins are hired by these individuals to silence the respective journalists for ever.

³ See annex VIII for more details.

whereby military cooperation, especially in the fight against terrorism in Mindanao, was legitimised allowing the US to continue its military presence in the region. Recent moves of China towards regional hegemony have led to Filipino efforts to enhance their bilateral relationship. Migration is crucial for the Philippines because about 8 million of Overseas Filipino Workers (OFW) send remittances worth almost US\$ 10.7 billion (over 10% of GDP in 2005). The Government supports the interests of OFW in securing jobs and markets abroad through an active labour migration policy but does not effectively protect them against human rights violations.

The Philippines is an active member of various regional co-operation mechanisms, such as the Association of Southeast Asian Nations (ASEAN), the Asia -Pacific Economic Cooperation Forum (APEC), Asia-Europe Meeting (ASEM), the ASEAN Regional Forum (ARF) and the East Asia Summit (EAS). The Philippines, chairing ASEAN during the second half of 2006, is pushing for the adoption of an ASEAN Charter and wants to ensure that ASEAN remains the driving force behind the EAS.

1.2. Analysis of the economic situation

The Philippines is a lower middle-income country (US\$1,300 per capita in 2005) with a high incidence of poverty. Between 1999 and 2004, per capita income in nominal terms increased annually by 2% on average. A combination of relatively slow economic growth (some 4% average in the past decade) and high population growth explains this minimal improvement. The unemployment rate has remained at around 11% since 2000, leading to more and more Filipinos seeking work outside the country, with accompanying high social costs.

Various growth-enhancing reforms were undertaken over the past two decades, which saw tariffs decline and non-tariff barriers removed, state enterprises privatized, industries deregulated and subjected to increased competition, and increased reliance on markets for price setting. The relatively robust growth of services (accounting for 53% of GDP) in recent years reflects the positive impact of past reforms including the liberalization of the telecommunications sector which has brought significant dynamism to the economy such as the country's stronger position in the IT and IT-enabled sectors.

However, the declining quality of education threatens competitiveness in the services sectors. Problems also abound in agriculture (15% of GDP), especially due to weather shocks and poor productivity. There are also weaknesses in infrastructure, and in policy (e.g. access to credit, research and extension, alternative non-farm activities). Manufacturing (24% of GDP) competitiveness has likewise suffered from a non-conducive investment climate, and constraints on SMEs (accounting for 99% of enterprises, 69% of employment but only 32% of value added) in accessing financing, technology, inputs and markets. Poor backward linkages and integration of the supply chain as well as poor management of assets, land and other resources further characterise the economic and industrial set-up.

Fluctuations in external demand in recent years have underlined the vulnerability presented by the lack of diversification of Philippine exports (70% in electronics and

electrical equipment). Unstable foreign investment inflows⁴, while reflecting the domestic political and security situation, highlight the need for further reforms to improve the investment climate. Aside from macro-economic instability, policy and regulatory uncertainties (e.g. sanctity and enforcement of contracts), institutional weaknesses, (property rights, corruption) security concerns, poor infrastructure facilities and higher costs of doing business represent major constraints to investors. Constitutional impediments to foreign ownership (e.g., land, mass media) have likewise discouraged the influx of foreign investments.

The immediate challenge for sustained economic growth, however, is to achieve macroeconomic stability, which at present, means continuing to restore the government's fiscal health while creating employment and income opportunities for a fast increasing population. Since 1997, the consolidated public sector position worsened markedly from around 1% of GDP in 1997 to over 5% in 2002, and dropping slightly below 5% in 2004. In 2004, outstanding national government debt stood at 79% of GDP and the consolidated public sector debt was even larger at about 100% of GDP. About a third of the government budget is thus spent on interest payments alone. The major reasons are the poor revenue performance of the government, poor governance of state enterprises, and mismanagement of contingent liabilities.

Since 2004, the government has passed fiscal measures worth around 2½ percent of GDP: an increase in excise tax rates (estimated revenue yield of 0.3% of GDP); an attrition law providing an incentives system for revenue agencies (0.1% of GDP); and an expanded VAT law (1.4% of GDP). Off-budget expenditures have also been reduced, mainly through a reversal of the President's earlier populist order for the state power company (NPC) to absorb increases in energy costs (0.9% of GDP). These measures have facilitated a sharp reduction in the fiscal deficit (from 3.9% of GDP in 2004 to 2.7% in 2005) and an improvement in the revenue-to-GDP ratio. Meanwhile, the broader non financial public sector deficit is estimated to have fallen over 2 percentage points in 2005 to 2.7% of GDP.

However, given the large stock of public debt that remains (90% of GDP at end-2005) and heavy reliance on external commercial borrowing, the economy remains vulnerable to changes in market sentiment, a sustained oil price shock, an avian flu pandemic, or political turmoil. Further improvement of tax revenues and the adoption of a consistent policy of economic (rather than political) pricing of public goods and services, are economic priorities. Improved governance of state enterprises, including privatisation and restructuring of the energy sector, is also essential. Over the medium-term, civil service reform to streamline the bureaucracy and better matching of responsibilities and resource transfers to local governments are required to increase the budget's flexibility. Another medium-term challenge is better management of the government's contingent liabilities (especially with respect to the pension system). Related anti-graft and corruption campaigns are also important elements to strengthen the "social contract"

⁴ FDI declined from US\$2.2 billion in 2000 to only 0.5 billion in 2003, before increasing again to US\$1.1 billion in 2005

Improving fiscal management will reduce the cost of capital for domestic investments, and enable government to undertake investments in the basic goods and services needed for long-term growth. For instance, spending on education has dropped from 3.4% of GDP in 1999 to only 2.7% in 2004, while health spending fell from less than half a percent to less than a quarter of a percent of GDP. Similarly, spending on infrastructure is now barely 1% of GDP.

1.3. Trade structure

In the past two decades, a series of unilateral trade reforms⁵ have resulted in significant changes in the structure of the economy, which has become more open and integrated with the world economy. Thanks to improved competitiveness, the share of manufactured goods (largely concentrated on semi-conductors and electronic components) in total exports increased from 25% in 1981–1985 to 90% in 1996–2001. Nevertheless, effective protection rates in agriculture and manufacturing remain quite high, at around 14–15%. Exports expanded rapidly starting in the 1990s, though not as fast as imports. In addition, increased imports have not compensated for the lower tariffs, reducing customs revenues from 5.1% of GDP in 1995 to about 2.5% in 2004, in the face of smuggling and valuation fraud.

In the aftermath of the Asian crisis, relative disappointment over the post-liberalisation experience has engendered a marked change in government sentiment towards globalisation. There is growing belief that the current multilateral rules are in favour of, and are abused by developed countries. Recent administrations have called for a “re-think” of such policies, remaining cautious on the issue of trade facilitation. The Philippines also has problems meeting its obligations and making full use of its rights under the WTO, particularly due to problems in the fields of SPS, product standards, trade defence and customs valuation.

From a regional trade perspective, the Philippines has been lagging behind its neighbours in terms of both commitments to AFTA and its implementation. It is nevertheless participating in the ASEAN RTA/EPA negotiations with Japan⁶, China, South Korea, India, Australia and New Zealand. The Philippines also focuses on the sub-regional East ASEAN Growth Area between Brunei, Indonesia, Malaysia and the Philippines, which is seen as an effective tool for the development of the southern island of Mindanao.

The Philippines has been participating in the Trans-regional EU-ASEAN Trade Initiative (TREATI), aiming to enhance dialogue and regulatory cooperation in six priority areas: sanitary and phyto-sanitary rules on agri-food and fishery products, standards on electronics and forestry and horizontal cooperation on investment and trade facilitation. The Philippines has also shown interest in an EU-ASEAN FTA, which was recommended by the EU-ASEAN Vision Group.

The EU is the Philippines’ 5th largest trading partner and export market, accounting for 12% of total trade and 16% of exports in 2005. The Philippines is the 15th largest user of

⁵ average nominal tariff rates were reduced from over 40% to around 8%

⁶ The bilateral EPA between Japan and the Philippines was signed in September 2006.

the EU GSP scheme. The EU is the 5th largest supplier of Philippine imports, accounting for 8% in 2005. The EU-Philippines trade balance since the Asian economic crisis has been in favour of the Philippines - €2.9 billion or 3.6% of GDP in 2005. Bilateral trade relations are generally good, with only a limited range of trade irritants regarding SPS and standards issues. However there has been a recent surge in circumvention cases, where products of a third country are made to appear as originating in the Philippines. IPR infringement is also a concern. The problems seem to emanate from a combination of Philippine exporters' inability to access, understand and/or comply with various EU SPS and standards regulations, and inadequate Philippine regulatory control systems and weaknesses in enforcement.

1.4. Analysis of social developments⁷

The Philippines ranks 84th in the Human Development Index with a score of 0.758. However, it ranks relatively better (63rd) on the Gender Development Index (GDI). Its record on MDGs is mixed.

Poverty

The Philippines has achieved a modest reduction in poverty incidence from 27.5% in 2000 to 24.7% in 2004, when approximately 30 million people were living below the poverty line.⁸ Poverty is multifaceted in the Philippines and includes deprivation of access to five essential assets: financial, human, natural, physical and social. There continue to be wide geographic disparities in poverty distribution across and within the different regions in the country and between rural and urban areas, with the highest incidences of poverty found in Mindanao and in the Cordilleras⁹. There are also persisting income inequalities between rich and poor, which confirm that overall economic growth has not been broad-based and pro-poor. The fiscal deficit and the lack of a national policy to curb population growth are likely to impede the GoP's ability to reach its target of halving poverty by 2010.

Indigenous communities are among the poorest in the country and depend on resources for their basic livelihoods. In Mindanao, violent conflict is linked in part to grievances over access to and control over natural resources. Some investments (both public and private) in resource-intensive mining, fishing, energy and forest industries have degraded and diminished available resources, displaced segments of the population and disrupted the social fabric of indigenous communities. This has exacerbated tensions, notably between competing clans, and has given a specific environment-conflict dimension to poverty.

⁷ See annex XIII for Philippine development indicators

⁸ % figures for poverty incidence and its evolution over time in the Philippines vary considerably according to the methodology and poverty threshold used. Other figures show a poverty incidence in the Philippines of over 30 %.

⁹ Cf. Annex VI for more details on the poverty situation and the methodological and statistical issues regarding its measurement.

Health

Health conditions have improved somewhat since the 1990s, as shown by the data on infant and child mortality rates, maternal mortality rates, life expectancy, malnutrition prevalence, and the prevalence of selected diseases such as malaria, tuberculosis and HIV/AIDS. The children under-five and infant mortality rates dropped from 80 (out of 1000) in 1990 to 40 in 2003 and from 57 in 1990 to 29 in 2003. Similarly, maternal mortality rate (MMR) also declined from 280 per 100,000 live births in 1990 to 172 per 100,000 live births in 2000, which is still higher than the rates of some of its neighbours in the region.

Access to quality health services continues to be a major problem in many regions as health service delivery suffers from budgetary cuts. The latest National Demographic Survey, for instance, shows an increase in the number of unvaccinated children. The number of married women using modern contraceptive methods rose to a still low 33% compared to just 25% in 1993 (GoP surveys only cover married women of reproductive age) and close to 24% of family planning needs remain unmet due to the lack of an active population control policy.

The rising brain drain of health professionals – the Philippines is the first exporter of nurses and the second of doctors worldwide – negatively impacts upon the quality of health services.

Health financing and social protection coverage is inequitable, with a heavy financial burden on households, especially the poor and ethnic minorities. The government addresses this key concern to some extent through the subsidized enrolment of indigents in its social health insurance programme.

Education

In past decades the Philippines had enjoyed high adult literacy rates (94%) and high participation rate in elementary education (97%). However, the gains in the sector could not be sustained. Falling participation rates, deteriorating quality of education and students' failure to reach final grades are some of the current problems of the Filipino education system which needs to cater to an ever-increasing number of young people.

Education outcomes in the Philippines are low compared to the rest of East Asia. Recent international studies ranked the Philippines nearly last in student performance on science and mathematics tests. The practice and quality of English has considerably fallen since its replacement by Filipino as official instruction language. In general, access to education is not a gender issue in the Philippines, girls even tend to have better access, lower drop out-rates and better grades.¹⁰ However, there continues to be the societal bias towards seeing men as the main bread winner. Indigenous groups and minorities do in principle have access to free education too, but in practice they sometimes remain outside the system as schools and teachers are often not available near their areas.

¹⁰ However, in the case of Muslim Filipinos, access to education remains a gender problem to some extent in terms of literacy grades, access to public funding. The same is true for some indigenous groups.

The quality of primary and secondary education has deteriorated particularly in the public sector. Budget cuts have led to a lack of classrooms and books and other learning materials. The dearth of competent teachers due to the brain drain factor has worsened the situation. Urgent action from the government is required to redress the situation.

Employment and decent work

The employment situation in the Philippines remains characterized by insufficient capacity to absorb neither the increasing number of unemployed and under-employed nor the additional labour supply due to strong population growth. Women tend to face higher unemployment than men and remain more vulnerable to seasonal fluctuations in employment. Youth unemployment is mitigated to some extent by increasing outward migration. Furthermore, less than a third of workers are covered by the national social security system. There are also concerns regarding the effective compliance with labour law and the limited enforcement of labour standards.¹¹ The Philippines have not ratified the so-called Forced Labour Convention.

Access to social services

Access by the poor to basic services such as housing, safe water, sanitation toilets and electricity remains a major problem although the situation has improved somewhat since 1998. However, progress has not been sustained for all basic infrastructures. The results of the 2002 Annual Poverty Indicators Survey showed there were fewer families in the lower income brackets that were able to access safe drinking water (80%), and had their own houses and lots (66.5%), although there were increases in the provision of sanitary toilets (86.1%) and electricity (79%).

According to government's monitoring, there is a high probability of meeting 9 out of 15 indicators covering 8 MDG targets. Five indicators have a medium probability (all in the areas of health and education) and one indicator has a low probability (contraceptive prevalence)¹².

1.5. Analysis of the environmental situation

The Philippines has rich and diverse natural resources and is one of the five only biodiversity hotspots. However, overall, the environmental outlook is bleak. Only 8% of the original primary forest remains and many species are under threat; 40% of the country's solid waste remains uncollected; just over 36% of river systems are classified as possible sources of public water supply; over-fishing and destructive fishing practices are among the main threats to the marine environment; and 70% of the coral reefs are in bad condition. The depletion of natural resources is caused by a variety of mutually reinforcing negative factors: high population pressure with the majority of the poor deriving their income from natural ecosystems; rapid and uncontrolled urbanisation;

¹¹ In particular child labour and employment in hazardous or worst forms of work remain a problem.

¹² When monitoring progress of the MDG goals, the government compares the ratio between the annual rate of change needed to reach the target and the current annual rate of progress. If the ratio is lower than 1.5, the government assesses the probability as high, if it is between 1.5 to 2.0, it is medium, and if over 2.0, it is low. It would seem to be more appropriate to allocate a high probability if the rate is below 1.0, medium if it is below 1.5 and low if above 1.5. This would result in downgrading 5 MDGs from medium to low likelihood (indicators concerned relating to nutrition, health and education).

conflicts of interest between long-term environmental concerns and short-term profit considerations in particular regarding (illegal) logging¹³ and mining; absence of political will (and therefore of allocation of financial resources) to enforce effective implementation of a relatively comprehensive legal and regulatory regime, which, in addition, is marked by a lack of clearly defined mandates and responsibilities between the various layers of central and local authorities. In Mindanao and elsewhere, violent conflict is linked in part to grievances over access to and control over natural resources, especially with regards to indigenous peoples. Small scale mining and the use of metallic mercury have negative impacts on both the environment and the health of the local population. Deforestation often exacerbates poverty. Global threats such as climate change are an issue for the Philippines, too. More information on the environment is included in a summary of the Country Environmental Profile in Annex III.

2. THE PHILIPPINES' POLICY AGENDA

2.1. The Medium Term Philippine Development Plan

In July 2004, President Arroyo announced a 10-point Agenda for the development of the country, this includes: *create 10 million jobs; education for all; balanced budget; transport all over the country; electricity and water across the country; decongestion of Metro Manila; setting up Subic and Clark as logistics hubs; automated elections; conclusion of the peace process with all armed rebel groups; healing the wounds of EDSA*¹⁴. This 10-point agenda can be seen as the outline of the government strategy and reflects the priorities of the current administration. It was given further expression in the 2004-2010 Medium-Term Philippine Development Plan (MTPDP) (see Annex XIV). The MTPDP is anchored in the main objective of fighting poverty.

A crucial implementation tool of the MTPDP is the Medium-Term Public Investment Program (MTPIP) for 2004-2010, which contains the prioritised projects and programmes that will be pursued to achieve the 10-point agenda espoused under the MTPDP. A Strategy Planning Matrix was likewise formulated to serve as an implementation mechanism that links the MTPDP with the MTPIP, which is the basis for the expenditure process. There is strong commitment from donors to support the implementation of programmes and projects consistent with this agenda.

2.2. Assessing the reform process

The Arroyo government has embarked upon a comprehensive series of reforms, which reflect the major problems the Philippines is facing. Yet, there are considerable delays in their implementation, mainly due to protracted decision-making procedures, lack of political will, political in-fighting, corruption and the lack of a professional civil service. Implementation of the reforms risks continuing to be hampered by the relentless political strife, with the Government's attention likely to focus more on political survival than on accelerating reforms.

¹³ Illegal logging is not considered a predicate offence in the Philippines

¹⁴ EDSA is a major avenue in Manila where demonstrators gathered in 1986 to demand the resignation of then President Marcos. In 2000 EDSA saw another wave of demonstrations this time demanding the departure of President Estrada.

The MTPDP was put together in a short period coinciding with President Arroyo's first 100 days in office, and is overall well formulated. It is substantial and succeeds in addressing most of the major development concerns of the country. It provides measurable targets and detailed cost estimates down to the level of each programme and project, thus enhancing transparency and accountability.

However, it is difficult to link the MTPDP and the annual government budget due to the GoP's attempt to accommodate a wide spectrum of demands from various sectors and interest groups. The MTPDP and MTPIP do not provide clear prioritisation of the strategies, policies and programmes it contains in terms of the resources needed to implement them. Actual implementation and enforcement has been a major and constant obstacle to economic reform¹⁵.

Further consolidation of the fiscal reforms, encompassing the tax structure, tax administration, privatisation, improved management of government owned/controlled corporations, and control of the budget, are critical and urgent.

Reform of the public sector entails decentralisation, fight against corruption and civil service streamlining. The Local Government Code of 1991 devolved service delivery, social sectors, environment, agriculture, tourism, telecommunications, public works and housing to local governments, granted local government units (LGUs) certain regulatory powers and increased financial resources. While devolution has made some progress, the lack of adequate financial resources to carry out the devolved responsibilities, weak capacity of LGUs and insufficient preparation have prevented effective decentralisation. Only 17% of the national budget is transferred to LGUs and these account on average for 64% of LGU budgets. Some LGUs are still dependent on national government for the delivery of basic services.

The Philippines has a large public sector¹⁶ marked by a proliferation of agencies, weak governance, functional duplications and overlaps among agencies and within and between departments. The GoP's approach to administrative rationalisation and re-engineering of its bureaucracy through legislative measures has only recently started to be implemented.

The sectoral reform adopted by the Department of Health is widely seen as the right response to the difficult public health situation. However, wider public finance management measures and effective decentralised health systems are imperative to prevent the negative effects of a shrinking health budget and to create a significant impact. Moreover, wide differences in health status between geographical areas and social groups needs to be tackled. While some advancement towards meeting the

¹⁵ There are other weaknesses of the MTPDP : lack of broad-based consultations; weak linkage between local, regional and national planning; absence of contingency planning measures; neglect of reflections on how to harness private sector support; need for Medium-Term expenditure framework; fiscal uncertainties.

¹⁶ (1.45 million government employees constitute over 4.6% of the total workforce and absorb 35% of the national budget)

Millennium Development Goals can be seen, several major issues such as high maternal mortality, high TB prevalence, high cost of medicines, neglect of primary health care, and continuous brain drain of health practitioners remain to be addressed.

The Government explicitly prioritized education in its medium-term policy agenda. The Department of Education presented its Schools First Initiative, a programme that aims to improve educational outcomes, promote decentralisation in the sector, and foster lasting gains in student achievement. These seem to be appropriate targets but the government will in addition need to reverse the decline in annual real spending per student and raise its investment in basic education.

Widespread and persistent unemployment and lack of decent work opportunities remain challenges within the medium-term development plan. In this context, the government underlines its commitment to the “principles of providing decent and productive employment”, including promotion of productive and decent employment opportunities, income generation, protection of rights at work, extension of social protection and support to tripartism and social dialogue. The government recognizes the need for readjustments of the Labour Code in relation to the above areas to provide more flexibility at the workplace, and promote decent work and respect for core labour standards.

Moreover, there are increasing disparities between rural and urban areas in social developments. Ethnic minority populations – mostly indigenous people - in remote areas in Mindanao and in the Cordilleras continue to be particularly affected by poverty, and by limited access to health and education. Moreover, recent poverty assessments also point to pockets of extreme poverty within urban areas, particularly associated with rural migrants, as an area of increasing concern. It will be difficult to reduce the rate of poverty, especially in these more marginalised communities.

Addressing the energy cost problems that resulted from the energy crisis of the early 1990s, the Government enacted the Electric Power Industry Reform Act of 2001 (EPIRA), which introduces a competitive electricity market and aims to attract foreign capital into the country. The sector will be split into four segments: generation, transmission, distribution and supply and generation assets will be divested into a number of separate businesses. While these reforms do make sense, their implementation has been delayed (due to unfavourable international conditions, investor hesitation and regulatory changes) with the privatisation of TransCo and of at least 70% of National Power Corporation assets still pending.

A number of encouraging reforms are being initiated and promoted at provincial and local levels by enlightened governors, mayors and other local leaders.

2.3. Cross-cutting issues: human rights, gender, governance

Major strides have been made to make the Philippines a liberal democratic State. The 1987 Philippine Constitution confirms respect for human rights, adherence to international law, and recognition of the need to address the vulnerabilities of

marginalised groups in the country. Various enabling laws and special bodies were established to address concerns of indigenous peoples, children, and women.

However, great imbalances remain related to access to and quality of socio-economic social services and clean environment. Female literacy and enrolment rates are now slightly higher than for males. This trend though is still linked to the unchanged gender-based stereotype bias for males to focus on paid work and be responsible for the family's 'upkeep' even at an early age. In Mindanao, especially in ARMM, gender-based literacy disparities between females and males are still high with the lowest literacy rate in the whole country (50% for females; 63% for males).

Lack of good governance, in particular bribery and corruption, threaten sustained growth and are breeding vicious circles of poverty and underdevelopment. In the 2005 Transparency International Corruption Index, the Philippines ranks 117th among 159 countries surveyed. Effective enhancement of the main features of good governance - transparency, accountability, participation and predictability, require sustained GoP commitment and action-oriented implementation supported by a pro-active private sector.

3. OVERVIEW OF PAST AND ONGOING EC COOPERATION, COORDINATION AND COHERENCE

3.1. Overview of past and ongoing EC cooperation

From 1992 to 2004¹⁷, the inflow of total ODA averaged US\$1.68 billion per year. The EC, the European Investment Bank and EU Member States collectively accounted for US\$1.9 billion or 8.8% of total ODA (US\$21.840 billion) for the same period. This made the EU overall the country's 4th largest ODA contributor after Japan (46.9%), WB (17.6%) and ADB (16.6%), and in terms of grants the second largest source after Japan. Overall ODA, including European, during that period has decreased steadily. 64% of 2004 ODA was through loans and 36% through grants. The bulk of the aid is concentrated in the transport, agriculture and energy sectors.

The 2002-2006 Country Strategy Paper (CSP) for the Philippines with an indicative budget of € 63 million, identified two focal areas of assistance: to the poorest sectors of society and for trade and investment. The CSP also included co-operation on good governance, human development and human rights and stability and security¹⁸.

In the first quarter of 2003 a Mid-Term Review of the CSP was carried out. The MTR confirmed the continued validity of the CSP's priorities, but concluded that amendments to the 2002-2004 National Indicative Programme (NIP) were needed in view of new and evolving circumstances, in particular concerning security and the fight against terrorism. A revision of the NIP was necessary to accommodate actions in counter-terrorism, anti-money laundering and conflict prevention in addition to good governance and trade. The

¹⁷ Source : Philippines National Economic Development Authority

¹⁸ Cross-cutting issues including capacity-building, HRD, civil society, gender and conflict prevention were also addressed.

above-mentioned review concurred with some of the findings of the MTR but it regretted that rural development had been dropped.

3.2. Lessons learned from past EC cooperation

A recent internal strategic review of EC cooperation in the Philippines concluded that the right priorities¹⁹ were chosen. “The sectors and cross-cutting issues corresponded closely to the Government’s overall development agenda and were in line with EC priorities.” The review also concluded that “the EC had been rapid in responding to the Philippines changing situation and priorities.”²⁰ However, the review also concluded that the EC should remain active in rural development since it “is the most important sector of the Philippines’ economy providing the livelihood for the vast majority of the population.”

The revised 2002-2004 NIP and the 2005-2006 NIP reflect Commission policy priorities such as stronger concentration of projects, pursuit of budget support and sector-wide approaches and enhanced cooperation with other multi- and bilateral donors. A sector wide approach in health, with a contribution of € 33 million in support of the Health Sector Reform Agenda (HSRA) of the government, has been approved, enhancing government-led donor coordination in the health sector. To address security concerns and linking poverty reduction with disarmament, demobilization and development, the restoration of peace and security in Muslim Mindanao was identified as another political priority. It was therefore envisaged to support the World Bank-administered Mindanao Trust Fund (MTF) and an amount of € 11-13 million was earmarked in the NIP 2005-2006²¹.

The second focal area, assistance to trade and investment, aimed at strengthening the capacity of government agencies responsible for product standards, sanitary and phytosanitary standards, customs and WTO issues; the recently started TRTA programme (€ 3.5 million) is receiving a lot of attention from stakeholders. A Small Projects Facility (SPF) (€ 3 million) was launched in 2004 to support small and innovative projects in the area of economic development, corporate governance, public sector reform and dialogue between business and civil society.

Improvement of governance is being dealt with by two separate projects: “Access to justice for the poor” and “Prevention of corruption”. These projects are proving to be very relevant but suffer from implementation delays inherent to decentralised management (absence of full time technical assistance; lack of familiarity with EC procedures; obligation to meet contracting deadlines). In the context of the EU support to third countries regarding the implementation of the UN Resolution 1373 in the fight against terrorism, an EU Rapid Reaction Mechanism team had performed a needs assessment in

¹⁹ Guillaume Serge et al., Strategic Review and Pre-programming Mission to the Philippines, Study carried out for the EC, June 2005

²⁰ Notably the integration of security issues and the response to difficulties arising in a rural development project.

²¹ However, the NIP 2005-2006 is innovative as it provides for a two-case scenario : if the peace process does not materialise, progress is too slow, or the MTF does not fully meet EC requirements in terms of objectives and strategy, the full amount foreseen in the NIP will be reallocated to the sector wide approach in health. This alternative scenario looks increasingly likely.

the Philippines and identified border management and fighting the financing of terrorism as the best areas for further assistance. Two projects were subsequently prepared and are ongoing: the “Border Management Project” (€4.9 million) and the “Anti-Money Laundering Project” (€ 0.9 million).²²

Horizontal budget lines and regional programmes have been supporting many projects in the Philippines over the years. There are 8 thematic and horizontal budget lines, 4 Asia-wide programmes and 4 ASEAN programmes that are operational alongside the current CSP/NIP. In terms of thematic BL, there are 40 projects (since 2000) with total EC contributions amounting to about €46 million. Finally, there are 19 Asia-wide and 3 ASEAN projects with a combined budgetary commitment of over €15 million. Since these are demand-driven, ensuring overall coherence of these programmes is a challenge. In the future, priority will be given to projects that are consistent with the country strategy.

As concerns higher education, since 2004 the Philippines benefits from the general Erasmus Mundus programme. This initiative is aimed to facilitate the participation of Filipino graduate students, among others, in European masters courses.

Some of the key crosscutting themes addressed by the projects that are relevant to EC-Philippine cooperation are:

- gender equality issues, human rights and capacity building for Non-State Actors have been relatively successfully integrated in the actions under NGO co-financing, Reproductive Health, EIDHR, and the de-centralized Cooperation budget lines;
- conflict prevention and LRRD continuum for internally displaced peoples have been addressed through the Aid to Uprooted People budget line and the ECHO projects in conflict-affected areas of Mindanao;
- environmental governance, renewable energy promotion, biodiversity conservation issues and rights of indigenous peoples have been given focus in the Environment and Forest projects, from the Philippine-specific to the regional (Southeast Asia) projects;

For thematic calls for proposals and regional programmes, priorities are currently being set at central or regional level and therefore not necessarily in accordance with national priorities. Country-level definition of priority areas consistent with both the overall CSP and the specific objectives of these programmes would therefore make for a sharper focus in these projects and a higher impact²³.

The EC has through a number of major projects substantially contributed to both rural development (where the majority of the poor and indigenous groups are located) and the sustainable use of natural resources. These findings were confirmed in various evaluations. Overall sustainability has benefited from local ownership in conjunction with LGUs and local NGOs as project-implementing partners. However, weak replication and

²² It is too early to comment on these projects since implementation has only started recently.

impact have led to a reconsideration of the sector and also shown the limits of the project approach. Nevertheless, more emphasis has been recently placed on working at the policy level in the rural development projects two of them in Mindanao, which has become the de facto geographical priority of EC assistance to the Philippines.

Project delivery in general has been experiencing some delays in terms of disbursement while project approval overall has been satisfactory. Projects have suffered from the use of bureaucratic procedures and lack of decentralized decision making in both the EC and the GOP. Evaluations of projects in various sectors concluded that in general projects were relevant and recommendations focussed on managerial and technical improvements and on better involvement of stakeholders. Counterpart funding has been a problem in the Philippines. Preparatory studies for sector support have revealed institutional weaknesses at central and local level. Recent experiences with GoP decentralised management of EC-funded projects are not very encouraging²³ and demonstrate the need to apply strict conditionality if budget support is to be used as a financing instrument and to deploy substantial capacity building efforts. Intensive monitoring by the EC Delegation will continue to remain crucial to ensure performance in bilateral projects, an observation shared by other donors.

3.3. EU Member States' & other donors' programmes

From 1992 to 2004 ODA represented about 15% of the Philippine National Budget. Over the last four years, ODA commitments have substantially decreased. In 2004 ODA was € 722 million, about half of the annual average for the period 1992 to 2003. Transport was the major ODA sector in 2004 (€ 307.05 million), followed by agriculture (€ 117.4 million), multi-sector projects (€ 65.63 million); energy (€ 64.02 million) and government & civil society (€ 43.06 million). In 2004, the EU as a whole (EC, EIB and MS) was the 2nd biggest donor to the Philippines and committed € 191.72 million (29 % of ODA). Other major donors in the Philippines have been Japan, WB, ADB, AusAid, USAid, and most of the MS present in Manila, especially Germany, Spain, Belgium and the Netherlands, although the latter two are scaling down their aid since the Philippines are no longer a priority country for them (see donor matrix Annexe IV)²⁵.

Due to lack of counterpart funds, commitment and utilisation of new ODA loans by government agencies has slowed down in recent years in an attempt to contain the growing fiscal deficit. This has prompted major ODA lending partners, such as WB,

²³ The strategic review suggests in addition that "...put a limit to the number of these projects. The MTR would review these areas and limits with a view to changing them if needed".

²³ Counterparts perceive EC procedures as being heavy and cumbersome and they are often not familiar with it; this is further enhanced by their perceived pressure to stringent contracting and implementation deadlines. The Strategic review also believes that ... the new Financial Regulation ...(is) making it difficult if not impossible to entrust implementation of projects to institutions such as the World Bank... and to PMUs."

²⁵ China is becoming an increasingly important donor in the Philippines, especially on infrastructural projects and poses a challenge to other donors in that sector as its approval process of projects is faster than that of traditional donors and with less strings attached. Its growing importance is a challenge for donor coordination too as China usually is not part of donor coordination efforts.

ADB, JBIC and Germany, to clean up their portfolio of ongoing projects. Programming of funds for new projects was in some cases being kept below normal levels until the fiscal position of national government started to show signs of significant improvement.

The Philippines Development Forum (PDF) has replaced the Consultative Group Meetings (CG) in 2005, creating a participative forum in which donors, government and other main stakeholders in development express their views on issues and strategies. The 2005 PDF emphasised the urgent need for far-reaching macroeconomic and public sector reforms to pull the Philippines out of fiscal vulnerability and has contributed to make some of these reforms happen. In 2006, the PDF has encouraged GoP to sustain fiscal reforms and to ensure that benefits of these reforms will reach the poor.

In the health sector, the Department of Health (DoH) asked the EC to be its initial partner in developing a sector-wide approach. Such an approach (SWAP) with good donor cooperation is now in full swing.

3.4. Aid Effectiveness, Coordination, and Harmonisation

EU coordination meetings between MS and the EC take place on a monthly basis at Heads of Mission, Development and Commercial Counsellors meetings. There are various thematic coordination mechanisms that have gained momentum in the preparation of the PDF²⁶. The Strategic review felt that “(EC) dialogue with GoP is good and healthy” and that “the Delegation has reinforced the dialogue with MS on development cooperation” while “bilateral dialogue with multilateral institutions is on an operational level.”

Joining efforts to increase aid effectiveness, in the light of the first High Level Forum (HLF) in Paris in 2003, the Commission is committed to the Paris Declaration on alignment and co-ordination of policies and harmonisation of procedures. The Council Conclusions of November 2003 envisage the development of EU roadmaps on harmonisation in all countries. As a participant in the work leading to the 2005 Paris Declaration on Aid Effectiveness, the Philippines have initiated a process of pursuing harmonisation with donors (supported by the ADB which is organizing jointly with DFID, Japan and the World Bank a major conference on this issue in late 2006 in the Philippines). The GoP has shown only relative leadership/ownership in committing to prepare a set of progress indicators as required by the Paris Declaration building upon the window of opportunity offered by the MTPDP. ADB is now providing substantial technical assistance to try and advance the national harmonisation agenda, but also faces delays due to inherent public service inertia (the omnipresent gap between concept and implementation). The EC is now taking active steps to further enhance aid effectiveness and donor harmonisation in the Philippines, drawing on its experience in Vietnam. It is therefore appropriate for the EC to align its strategy to the MTPDP.

²⁶ Working groups include the World Bank’s quarterly Donor Co-ordination Meeting; the National Anti-Poverty Commission (NAPC), the Agrarian Reform Donor Group; the Global fund on Country Coordinating Mechanism ; ODA ; Gender and Development (GAD) Network and the Small Grants Donors Group. Recently, working groups on governance, decentralisation, energy, investment climate, TRTA and anti-money laundering were set up or reactivated. Some of these working groups are government-driven; others are only donor working groups.

3.5. Policy mix

The country strategy for the Philippines is consistent with the principal policies of the EU including trade and development (for details, see Annex V).

The EC-ASEAN Co-operation Agreement and EC Philippines SOM meetings set the framework for EC-Philippines cooperation while ensuring coherence of all Community policies. In implementing the present strategy, particular attention will be paid to developments in other EU policy areas such as trade, investment, social dimension of globalisation, employment and decent work, education and culture, R&D, environment, justice and home affairs in order to ensure coherence.

EC support to the Philippines is coherent with a range of Community policies and with related international agendas outside the direct framework of the country programme. EC co-operation with the Philippines is in line with the priorities agreed at the Johannesburg Summit on Sustainable Development and with the 2005 UN World Summit conclusions.

The cross-cutting nature of sustainable resource management is a key concern in the context of rural development and the alleviation of the social consequences of reform.

Against the background of the trade-related assistance provided for in this CSP, developments in trade policy will be closely monitored, in particular those concerning WTO negotiations, the TREATI regulatory dialogue process, and implementation of the recommendations made by the high-level "EU-ASEAN Vision Group" regarding an EU-ASEAN FTA. Bilateral trade issues are being addressed through the ongoing TRTA and will continue to be taken into account in the future programme.

The EC will also ensure that EC support for the Philippines is coherent with action taken at regional level in the context of the 1980 EC-ASEAN Co-operation Agreement and the 2003 Communication on a "New Partnership with South East Asia".

With regard to Justice and Home Affairs (JAI) issues, some of these are dealt with through regional EC co-operation of ASEAN and ASEM (e.g. migration and combating terrorism). In addition, the Commission introduced these themes into the policy dialogue with the Philippines at the 4th EC-SOM meeting of 2005 and agreed with the Government of the Philippines on further consultations and on the exploration of enhanced dialogue and co-operation. As the Philippines is an important country of origin of legal migration, related aspects such as information programmes on the rights and duties of migrants and the promotion of the best use of remittances will also have to be addressed.

Within the DCI area of cooperation on governance, democracy, human rights and support for institutional reform, in particular related to co-operation and policy reform in the fields of security and justice, the Community will carry out measures which shall fully respect OECD-DAC guidelines, taking also into consideration relevant European Council Conclusions.

Regarding Governance and Human Rights, several projects (Institution Building Support, EIDHR, Strategy Projects Facility) are underpinning the EU-Philippines dialogue in this area.

The Commission presented the EU Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) at the ASEAN partners meeting of 2005, when both sides agreed that further dialogue on FLEGT within the framework of the Forest Sector Support Partnership. FLEGT is now an integral part of the EC's support for the forest sector.

Aviation and maritime transport are concrete elements of the Community's external relations with a specific focus on security and safety issues. The Philippines plays a major role in supplying labour to European ships. The EC is negotiating air services agreements with all third countries and has been providing assistance in civil aviation security to the Philippines in a framework of a regional programme.

Since 2004, the EU has been engaged in an informal dialogue with GOP on political, economical and development issues whereby the EC has taken the lead in various of these discussions.

4. EUROPEAN COMMUNITY RESPONSE STRATEGY 2007-2013

An indicative amount of € 130 million has been earmarked for EC cooperation with the Philippines under the SP 2007-2013.

4.1. Justification of the choice of focal sector

The response strategy reflects the EC's commitment to the Millennium Development Goals, to the conclusions of the Monterrey Conference on funding for development, the Marrakech Declaration on management for development results, the Doha process regarding trade, the Johannesburg World Summit on Sustainable Development, the targets of the Paris Declaration on Aid Effectiveness, the recent Joint Commission and Council Declaration on EU development policy and the 2005 UN World Summit conclusions on human and social development. The EC supports a commitment to increased harmonization of procedures and co-ordination of policy among EU donors in accordance with the conclusions of the Barcelona Summit of March 2002 and the General Affairs and External Relations Council of November 2004.

The EC response strategy in the Philippines implements a graduation policy focusing both on addressing poverty reduction and on promoting economic and governance reforms. It reflects the Philippines policy agenda, EU's co-operation objectives and EC's competitive

advantages. The *overarching objective* of EC cooperation for the period 2007-2013 is to *support sustainable development in the Philippines* building on the shared EC-Philippines commitment to attaining of the MDG. In close cooperation with other donors, assistance will be provided through budget support and sector wide approaches where possible.

The main area of concentration for cooperation will be *support* for the Government to deliver *basic social services* with a particular focus on improving equitable access to quality health services in the first National Indicative Programme (2007-2010).

This thrust is in agreement with the MTPDP where the importance of social services such as health and education is recognized, and reflects the EC's commitment to the MDGs and ensures strategic continuity of EC interventions.

The proposed EC response focuses on areas where the EC has a comparative advantage over other donors such as in its broad experience in health sector programmes and being the lead donor worldwide in TRTA while focussing on activities that are particularly suitable for grant financing.

Working on the basic delivery of social sectors, where the EC has become one of the leading players both globally and in the Philippines, will allow the poverty challenge in the Philippines to be effectively addressed. In view of the limited resources available for the country and in order to achieve impact, it is necessary to focus on one sector. In health, the EC has already joined forces with other donors and has a proven ability to engage in a significant policy dialogue with the Department of Health. Synergies are being enhanced with programmes of other major players such as World Bank and ADB, which work more on a loan basis. The outcome of the CSP/NIP mid-term review will determine whether EC support to 'Basic Social Services' during the second NIP (2011-2013) will continue to go to health or to other vital MDG areas such as basic education. As far as assistance to trade and investment is concerned, the EC honours the pledge of Commission President Barroso to deliver TRTA to all developing countries, drawing on its wide range of in-house capacities and its experience as the biggest donor worldwide in this area.

Therefore, the EC will provide support to boost *trade and investment* flows while paying due attention to the social dimension of globalisation. This support will translate into action the EC's commitment to enhancing the link between trade and development in developing countries and making globalisation work for the poor.

The Small Projects Facility, renamed Strategic Projects Facility, will be a demand-driven tool, to enhance the overall Dialogue on Governance with non-State Actors and the government, aiming to boost good governance and socio-economic reforms.

Support for the Mindanao peace process through a contribution to the Multi-donor Trust Fund demonstrates the EC's continued political commitment to the peace process in Mindanao contributing to stability in the region and thereby laying the foundation for sustainable development through linking relief, rehabilitation and development issues.

4.2. Cross-cutting issues

Given the envisaged concentration of assistance, cross-cutting issues such as the improvement of governance, human rights issues, gender, children and indigenous peoples' rights, social dimension of globalisation, cultural issues, environmental protection and conflict prevention will be systematically mainstreamed in all development endeavours covered by this CSP.

In view of the enormous poverty challenges and the financial requirements to achieve impact in the chosen sector(s) through sector-wide approaches, the budgetary allocation for the period 2007-2013 should be substantially increased compared to the current one.

4.3. Risks affecting the Strategy

Due to the long time span of the country strategy, some assumptions have to be made regarding the future development of the Philippines. This strategy assumes a three case scenario: an "optimistic scenario" (scenario I), a likely "muddling through" scenario (II) and a "crisis and instability" scenario (III)²⁷. Details of the scenarios can be found in Annex XI. The proposed EC strategy will respond to various development paths of the Philippines through built-in flexibility (sector-wide approach and demand-driven instruments). However, it cannot be guaranteed that adjustments within the proposed sectors may be sufficient, especially if the crisis scenario III were to materialise. The possible need for a revision of the strategy is therefore not to be excluded. Monitoring of the strategic assumptions and risks and their indicators as well as the existence of a strategic reserve sector (education) should nevertheless make for timely strategy adjustment, if necessary.

The major risks of the strategy are at two levels: at macro level, in economic, political and social instability and in the lack of progress in the peace process; at another level, in the lack of donor cooperation versus sector-wide approaches and the lack of government leadership, support for reform and counterpart funding. Some risks are directly addressed by the response strategy through the proposed measures while other risks will be mitigated through policy dialogue with the government and the pursuit of strong relationships with other donors.

Both the health and education sector have suffered from reduced GoP funding, resulting in a decline in the quality of social services. This reduced quality leaves the country ill-equipped to face the challenges of global competition in a highly competitive region. Improvements in health and education would effectively both reduce poverty and increase competitiveness in the medium term. The EC-led sector programme in health under the NIP 2005-2006 has had an encouraging start and has made some headway in support of the work of the government and the donor community. Building upon and further consolidating this programme, an additional sector health programme will follow up and deepen the current one. Support for health through sector-wide approaches is relevant, as it enhances ownership, impact and sustainability, works at local and provincial level and reduces transaction costs.

Improving the quality of and access to education of the poor where appropriate in the framework of the health sector support programme and possibly in the framework of

educational governance under the SPF, will boost complementarities in the social sector at large through the convergence approach and have a mutually reinforcing impact on poverty reduction.

Moreover, government capacity building efforts to improve public finance management and support decentralisation will be adequately integrated into sector support. Particular attention will be given to gender equality issues and to the interests of vulnerable groups such as indigenous peoples and children; mainstreaming of good governance matters will be pursued if/where appropriate. Environmental issues will be integrated in the health programme to reduce health risks.

4.4. Main Sectors of Concentration

Focal sector: Support for delivery of basic social services

Support for delivery of basic social services comprises two sub-sectors: access to basic services in health and access to basic services in education. In view of the limited EC resources available for the Philippines and the need to provide continuity in the sector programme on health, support for delivery of basic health services will be the focus under the first MIP (2007-2010). The SP/MIP mid-term review will take stock of progress achieved in health and other MDG-sectors and the scope for providing sector-based support. The outcome will determine whether EC support to 'Basic Social Services' during the second MIP (2011-2013) will continue to go to health and/or to other vital MDG areas such as basic education.

Since the 1990's, minimal health improvements have left the country lagging behind neighbouring Southeast Asian countries. Major issues that still need to be addressed are the maternal mortality rate (172 per 100,000 live births), widespread malnutrition (30% of children are under-weight) and high tuberculosis incidence (316 cases per 100,000 people). Communicable poverty-related diseases coexist with an increasing prevalence of non-communicable diseases.

Inefficient segmentation of the health system has been brought about by the devolution of responsibilities for health service provision to local governments since 1991. Primary health care falls under the responsibility of municipalities, while hospital care is managed by provincial governments and the Department on Health (DOH), which also has a major role in the delivery of national programmes, in addition to policy-making, monitoring and regulatory functions. A high burden of health spending (more than half of the overall health expenditure) is placed on households, especially the poorest ones.

Recognising this situation the government launched a comprehensive reform strategy in 1999, known as the Health Sector Reform Agenda²⁸ (HSRA), with the aim of improving the coherence and equity of the health system. Although the HSRA constitutes a good policy framework, progress has only recently geared up. This is because of delayed implementation (it only started in 2001), uncoordinated donor-funded projects and limited (increasing though) DOH capacity to lead the reform process.

The EC has recently started a major HSRA support programme (€ 33 million grant over 3.5 years). In line with the sectoral approach, this support is closely coordinated with that of other donor partners through an emerging national reform programme. It targets reform implementation at both central DOH level and in a set of provinces, this constituting the so-called *Phase 1* implementation programme of the government. This programme is to be jointly supported by various donors (German Development Cooperation, ADB, World Bank, EC and possibly others). EC support is designed to increase utilisation by the poor of affordable and financially sustainable, quality essential health services and population programmes. It prioritises pro-poor interventions and targets primary health care services in the poorest municipalities, together with system development and capacity building at local level and at DOH level. The Government's efforts to improve public expenditure and finance management will be supported.

The DOH has been making substantial progress with the preparation of the Sector Development Approach for Health – SDAH. It aims to mainstream cross-cutting issues not explicitly addressed before, such as internal DOH management, public finance management and procurement, which are critical to the effective development of a SWAP and ongoing national health policy revision.

These developments are conducive to a more cohesive and successful implementation of the HSRA and to a fully fledged SWAP. Reform, however, is a time-consuming process; the government's "Phase 1" implementation programme will need to be further developed and expanded to spread reform benefits and sustain these throughout the country. The DOH will have to consolidate and further develop reform achievements in the provinces of the Phase 1 implementation programme, replicate reform strategies in other provinces and further strengthen core regulatory and other functions.

EC support will take the form of a contribution to the Government-led Philippine Health Sector Programme. Indicators will include traditional health-related MDGs, indicators related to HSRA and PFM-related indicators; indicators will not only be gender sensitive but also sensitive to ethnicity. Consideration will also be given to maximizing synergies between EC support for health and support for the delivery of other social services, including education²⁹ as well as extension of social protection coverage where possible.

Non-focal sectors

The EC's response strategy for the Philippines under non-focal sectors focuses a number of the country's constraints in the areas of international trade and development as well as on its widespread lack of good governance, by boosting the dialogue with and between government and civil society. Last but not least, the EC's commitment to peace and security, addressing some of the root causes of terrorism, is demonstrated through its support for the MTF.

The Philippine Government indicates in the MTPDP its intention to fully use the trade potential to bring about employment generation and SME development notably in the

agricultural and marine products and services. The EC will step up its **Trade-Related Assistance (TRA)**, building on the ongoing programme. Future activities will build upon broad analysis including the Trade Needs Assessment commissioned for this exercise. The programme will include support for multilateral trade integration and implementation of WTO commitments, help the Philippines to participate fully in regional economic integration and potential EU-ASEAN FTA negotiations, and tackle constraints to the trading relationship with the EU including TBT, SPS, export diversification, and other issues. Particular attention will be given to the promotion of agricultural exports due to the inherent poverty reduction potential.

Support to the **Dialogue on Governance** through the demand-driven **Strategic Project Facility** will focus on reform efforts and the advancement of good governance³⁰, and on enhancing the participation and capacities of non-State actors in such reforms. This distinctive tool will also be used as a vector to promote dialogue both with the Philippines authorities and with its vibrant civil society, including social partners, on issues such as human rights and labour standards, culminating in targeted actions, which will help to enhance EC visibility. Given the success of the first SPF in meeting these objectives, its allocation will also be increased.

Addressing local and regional security issues and the fight against terrorism while at the same time linking poverty reduction with disarmament, demobilization, rehabilitation, reconstruction and development, the restoration of peace and security in Muslim Mindanao continues to be a main priority. It is therefore planned - subject to the conclusion of a peace agreement or the achievement of decisive progress towards this agreement, – to **support to the Mindanao Peace Process** by contributing to the World Bank-administered Multi-donor Mindanao Trust Fund. The EC has participated in the Joint Needs Assessment where various issues and activities for the MTF were outlined and continues to participate in all preparatory activities. Many other donors have signalled their willingness to contribute to the MTF and some have already contributed to the initial phase. In case the Mindanao Peace Process derails, funding earmarked under this CSP to contribute to the Mindanao Trust Fund will revert to the focal sector.

Regional and thematic programmes

In the context of cooperation with the Philippines, the Commission also intends to pursue a number of thematic interventions. Democracy and Human Rights, Migration and Asylum, Human and Social Development, Environment and Sustainable Management of Natural Resources are likely themes for EC support.

These thematic activities will be coherent with and complementary to the strategic objectives pursued by the Commission under the SP and form part of the policy dialogue with the Philippines. These activities are meant to be carried out mostly by non-State actors. The financing of these thematic activities will be additional to financial resources provided under MIPs. In addition, the Philippines will also benefit from activities funded under the Asia-wide programme (e.g. Asia Invest) and from activities funded under the Instrument for Stability.

Regarding higher education, the main objective in Asia is to enhance the international cooperation capacity of universities in third countries by facilitating the transfer of know-how and good practices in the field of student and academic staff mobility. The European Commission will contribute to financing a mobility scheme between European universities holding an Erasmus Charter and third country universities that will complement existing programmes in the field of higher education. The types of mobility to be funded are:

- for students: master, doctorate and post-doctorate mobility opportunities;
- for academic staff: exchanges for the purposes of teaching, practical training and research. Higher education cooperation activities will be funded under the regional programming for Asia.

1. The EU Treaty Objectives for External Co-operation

In accordance with **Article 177 of the Treaty Establishing the European Community**³¹, community policy in development co-operation shall foster:

- 1 Sustainable economic and social development of developing countries;
- 2 Smooth and gradual integration of developing countries into the world economy;
- 3 The fight against poverty in developing countries.

The Community's development policy shall contribute to the **general objective** of developing and consolidating democracy and the rule of law, and encouraging respect for human rights and fundamental freedoms. Development co-operation is a multidimensional process covering broad-based equitable growth, capacity and institution building, private sector development, social services, environment, good governance and human rights.

On the basis of Article 179 of the same Treaty, a new Development Cooperation Instrument (DCI) was adopted in December 2006. The Philippines is eligible to participate in cooperation programmes financed under the DCI (European Parliament and Council Regulation (EC) N° 1905/2006 of 18 December 2006 establishing a financial instrument for development cooperation.

2. Objectives of the EU as laid down in other applicable documents

Commission Communication COM(2001)469 "Europe and Asia: A Strategic Framework for enhanced partnerships" with the following 6 objectives: (i) contribute to peace and security in the region and globally, through a broadening of our engagement with the region; (ii) further strengthen our mutual trade and investment flows with the region; (iii) promote the development of the less prosperous countries of the region, addressing the root causes of poverty; (iv) contribute to the protection of human rights and to the spreading of democracy, good governance and the rule of law; (v) build global partnerships and alliances with Asian countries, in appropriate international fora, to help address both the challenges and the opportunities offered by globalisation and to strengthen our joint efforts on global environmental and security issues; (vi) and help strengthen the awareness of Europe in Asia (and vice versa).

On 9 July 2003, the European Commission adopted a Communication on a "New Partnership with South East Asia", setting out a comprehensive strategy for future EU relations with the region. The strategic priorities identified in the Communication include (1) Supporting regional stability and the fight against terrorism, (2) Human Rights, democratic principles and good governance, (3) Mainstreaming Justice and Home Affairs issues (4) new dynamism into regional trade and investment relations (5) development of less prosperous countries, and finally (6) intensifying dialogue and co-operation in specific policy areas, such as economic and trade issues, justice and home affairs matters, science and technology, higher education and culture, transport, energy, environment, and information society.

The Philippines is signatory to the 1980 Co-operation Agreement between the European Community and the ASEAN countries. The Agreement covers trade, economic co-operation and development as a basis for institutionalised dialogue. The EU and Philippines have manifested officially their interest for the negotiations for a Bilateral Co-operation and Partnership Agreement. This agreement aims at establishing a relationship based upon a modern policy agenda, with an appropriate institutional framework and enabling a policy dialogue on a wider range of issues, including political issues such as human rights and counter-terrorism.

European Parliament and Council Regulation (EEC) 1905 /06, of 18 December 2006 (DCI Regulation;;) applies to the Philippines. This Regulation underlines the importance that the Community attaches to the promotion of human rights, support for the process of democratisation, good governance, environmental protection, trade liberalisation and strengthening the cultural dimension, by means of an increasing dialogue on political, economic and social issues conducted in mutual interest.

3. The EU's Development Policy

On 20 December 2005 the Presidents of the European Commission, the European Parliament and the EU Council signed the joint Development Policy Statement (DPS). This "European consensus" will provide the Union with a common vision of values, objectives, principles and means for development. The revised statement is intended to take account of changes both within the EU and internationally since the first statement on the European Community's development policy was adopted by the Council and Commission in November 2000. The new joint statement is structured in two parts, which set out:

- in the first part, "the EU vision of development", the objectives, principles and methods by which the EU at Community and member state levels implement their development policies;
- in the second, "the European Community's development policy", guidance for implementation at Community level.

4. Aid Effectiveness. Harmonisation and co-ordination

The aid effectiveness, harmonisation and co-ordination in the Philippines reflects the conclusions of the EU GAERC of November 2004, and builds on previous achievements on EU development activities, the EU local cost norms, joint EU statements and pledging at Consultative Group meetings. It takes a practical approach and includes commitments such as alignment to the Philippines socio-economic development plan for 2004 to 2010, joint analysis of this plan, definition in this framework of priorities and areas of concern, and delivery of EU support to the Philippines in a co-ordinated and harmonised way, *inter alia* trying to provide pooled financing in different sectors and budgetary support. Moreover, it acknowledges the value added of EU coordination meetings with EU MS and others donors, in order to improve policy coherence, streamline operations, and strengthen partnership within the EU and the larger community, in pilot areas including health sector, (and subsequently governance).

In the light of the first OECD/DAC High Level Forum (HLF) in Rome in February 2003, the Government of the Philippines established a co-ordination with all the donors and donor groups with a view to accelerating progress of harmonisation. Following the HLF II in Paris in March 2005 donors and government committed themselves during the last PDF in March 2005 to specific achievements in the areas of ownership, alignment, harmonisation and simplification, managing for results, and mutual accountability.

5. UN Summit conclusions 2005

The importance of strengthening the social dimension of globalisation and of promoting productive employment and decent work opportunities was highlighted in §47 of the **UN Summit conclusions of September 2005** regarding human and social development. UN member states committed themselves in particular to *“strongly support fair globalisation and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the MDGs.”*

ANNEX II SP/MIP Consultations

Based on the RELEX concept paper, which originally allowed for two focal sectors, the Delegation had identified health and education as focal sectors. All consultations were based on this premise and followed the same pattern. However, it was subsequently decided to concentrate aid on support to the delivery of basic social services (including both health and education) and to focus in the first MIP(2007-2010) on health in order to try and boost impact and sustainability.

The EC Delegation conducted four consultation meetings in Manila during the preparation of the SP. All meetings followed the same pattern. They were structured into two parts consisting each of a slideshow presentation by the EC and a subsequent discussion. The first section pertained to the EC country assessment, the second presented the SP and MIP in broad strokes. All consultations were guided by a facilitator³⁴.

1. Consultation with Non-State Actors –18 April 2005

A total of 34 organisations were invited out of which 17 attended³⁵.

Representatives from civil society generally felt that the EC's analysis of problems and response strategy was appropriate. NSA representatives highlighted that alleviating poverty should remain the central purpose of the EC's intervention.

From this perspective, **health and education are valid priority sectors for EC intervention**. Beyond their immediate relevance to alleviating poverty, these two sectors would allow to address cross-cutting issues such as governance, preventing brain drain, and in the case of education, building a culture of peace, social responsibility, community-building, especially through a mixed intervention in both basic and non-formal education. Slowing down of progress in these areas was pointed out as indicator of low priority given to these sectors by the government. Harnessing market forces, through partnerships with the private sector, was pointed out as an avenue to be explored.

Mixed opinions were expressed on the **adequacy of local government units as implementation partners**. Although they may display higher efficiency in managing health and education services, and be more accountable than central agencies, misuse of power in LGUs was noted as a significant blockage. Participants were critical of both Departments of Education and Health and cautioned about doing business as usual with the Government.

Some participants expressed **doubts on the positive impact of trade and development programs on poverty alleviation**, pointing out the negative impact of globalisation on small/poor producers. Support to non-formal sectors of the economy was suggested. The EC was asked to ensure oversight of European transnational corporations in mining and other investment sectors, to ensure compliance to environmental and social safeguards. However, private sector representatives welcomed an increasingly environmentally-conscious European investment in the mining sector. The positive impact of other promising sectors such as IT and health care on slowing brain drain was pointed out. The

EC responded that it could focus on sectors such as agriculture where increased exports would have a positive impact on poverty reduction.

Support to the following sectors was noted to be lacking, and deplored: Disaster preparedness, support to the judicial system; human rights; biodiversity and environment, water. It was also noted that UN conventions should be mainstreamed into the EC's strategy. The EC pointed to ongoing projects and to the need for concentration to achieve impact.

Most participants expressed doubts on the **effectiveness of conditioning the contribution to the Mindanao Trust Fund** to the signature of a peace agreement. Support to areas where mutual trust has been built was considered more appropriate. Participants expressed the opinion that the worst case scenario was more than ever not just a theoretical option but a real possibility.

2. Consultation with EU Member States - 19 April 2005

Representatives present from A, B, CZ, E, F, FI, G, I, NL, UK.

On the presentation of possible causes for the current problems of the Philippines, one participant felt that clarification on the doubt about political will of the Government to implement far-reaching reforms was needed, because of the serious consequences of this statement. The EC emphasised that the doubt about political will was not related to co-operation with the donor community, but that it relates to the unwillingness to solve structural problems of the country. A participant suggested that religious conflict and intolerance shouldn't be mentioned as a main cause, since the roots of Muslim insurgency were much more related to poverty and inequality, and in comparison to other countries the Philippines was a tolerant society. Attendants commented on the status of the Ph. as a lower middle-income country. Even if there is availability of a reasonable amount of resources at national level, the EU strategy should focus on the prevalence of vast pockets of poverty as a main reason for its intervention.

Participants requested clarification on the concept of Sector Wide Approach (SWAP), thereafter provided by the EC. One attendee commented on the difficulties of working with SWAP and concluded that this tool would not be suitable for the Philippines, mainly because there was no level of influence on the Government, and the problem of aid fungibility. **Many participants requested the EC to intervene in governance, seen as the key problem of the Philippines.** Support in improving the tax collection system and the decentralisation process were suggested as much needed intervention areas. Attendees acknowledged that governance had a low aid absorption capacity and that there was no tool available to guarantee success. **They welcomed and encouraged the proposed integration of governance aspects in the SWAP for the health and education sector.**

After the presentation of the three-case scenario, one participant suggested to change the probability percentages in order to give a higher probability to the crisis and instability scenario. Feedback from civil society showed that there is a widespread pessimistic view of the country's development in the future. Participants agreed on the serious risks posed by the deteriorating environmental situation. One attendee suggested to put more

emphasis on the environment, but it was acknowledged that there was a lack of commitment of the Government to prioritise environmental issues, and that this would complicate co-operation with donors. It was suggested to include projects related to environment in the Small Projects Facility.

The majority of participants felt that by working in health and education, money could be most effectively spent to address poverty in the Philippines.

3. Consultation with Government Representatives - 19 April 2005

Present: DA, DepED, DENR, DFA, DOH, DTI, NEDA, Ombudsman, Supreme Court.

On the EC country assessment it was suggested that the strengths, problems, causes and response strategies from the Government (GoP) and the EC should be linked together and presented in a matrix for a better overview. One attendee noted that the logic of the analysis was flawed because the issues raised were of different categories and dimensions; some being very broad and others very specific. This would make it difficult to relate the strengths, problems and causes to each other and come up with a response strategy. Participants asked for the clarification of the concept of miseducation presented as a cause of current problems, hereafter provided by the EC.

After the SP/MIP presentation, one participant asked for the possibility of including environment as a focal sector, even though acknowledging that the EC is already providing support through regional cooperation mechanisms. The EC replied that as a donor it is building on the GoP's concerns. Since the environment is not a GoP priority, the EC could not choose it as focal sector, but would mainstream it in its intervention in the health and education sector, as well as through the Small Projects Facility.

More questions on EC policies and procedures were raised, than actual comments and suggestions on the SP. Participants wanted to know whether there would be attached conditionalities for budgetary support in the health sector SWAP. Questions were raised on procedural issues of the implementation, financing and possible continuation of current projects. A participant asked how the EC would define the amount of ODA the Philippines would receive and requested to be informed about the criteria defining such amount. Participants also asked for clarification on the contribution to the Mindanao Trust Fund and the consequences for the MIP 2007-2010, in case a peace agreement would or would not be signed before December 2006. All the questions were duly answered by the EC. However, on criteria for allocation only a holding reply could be given by EC.

One participant concluded that the proposed EC strategy was not a big departure from the current one. **In general there was support for the SP/MIP with its focus on health and education, since participants agreed that this could help the GoP to achieve its own goals. Further assistance for trade and investment was seen as a priority.**

4. Consultation with the Donor Community - Manila, 3 May 2005

Attended by representatives from AusAid, IOM, JBIC, JICA, Korean Embassy, UNESCO, USAID, WHO and World Bank.

After the EC country assessment presentation, **participants commented extensively on the problems and causes presented.** One attendee asked if the EC was going to make a special case for Muslim Mindanao in its SP, given its particular situation. The EC replied that it would make special mention of Mindanao, but it would not go as far as to make a special case for it, since it did not intend to treat the area in isolation to the rest of the country. It was suggested to mention the problems of lack of sustainability in the Philippines. Furthermore, it was suggested to highlight the lack of social contract between the Philippine society and the state, as a crucial problem leading for instance to low tax collection. One participant commented that in comparison with similar countries, the local delivery of public services and the decentralisation process in the Ph. were not that deficient. Another participant suggested adding the problem of weak rule of law, currently replaced by a rule of powerful people, and the problem of not being able to effectively use ODA. **Donors agreed that the general policies and institutional framework in the Philippines are not a problem per se, but their implementation and functioning.** They confirmed EC's lessons learnt from past cooperation in the Philippines.

On the 3-case scenario and diagram analysis, **various participants requested clarification on the link between the scenario analysis and the EC response strategy,** thereafter provided by the EC. One attendee commented that the scenario analysis was confusing and shifting attention away from the following strategy diagram analysis tools, which was more relevant. Participants wanted to know more details on the set-up and outcomes of the consultation with non-state actors, especially regarding their assessment of the country's situation. Moreover, participants asked how the EC had assessed the relevance for the Philippines, when setting the different intervention areas in the diagram analysis, and how the EC would monitor and adapt its strategy to different scenarios. The EC replied that the diagram analysis was mainly based on its own assessment and that although it is less flexible than some other donors, it would provide ranges for project allocations to allow for some flexibility.

On the SP/MIP, participants agreed on the importance of mainstreaming public finance management in the SWAP in health and education. One attendee asked whether the EC, would not engage anymore in projects in the future, but in budgetary support only. Another participant remarked that donors engaged in the PDF working groups, had identified the same priorities and issues that the EC had presented. **Overall, there was no disagreement with the EC strategy and donors expressed interest in enhancing their cooperation, especially in the areas of education, health, strategic projects facility and the Mindanao Trust Fund.**

Since May 2005 government-led donor coordination has indeed been significantly strengthened in particular in the areas of education, health and the MTF. For education and health, there are to very active PDF sub-working groups, both of which the EC is a

member of (and even co-chairs the one on health jointly with the German Development Cooperation). There is a Joint Appraisal Committee also in the health sector. On the MTF, coordination is done at the following levels: PDF working group on Mindanao and Project Steering Committee on the MTF (the EC is in the process of becoming a member). In addition, there is coordination of EC projects (and of other donors) working on the ground with the MTF.

ANNEX III

Country Environmental Profile

The Philippines has rich and diverse natural resources. However, these resources are being rapidly depleted due a variety of mutually reinforcing negative factors: high population pressure with the majority of the poor deriving their income from natural ecosystems; advancing industrialization, conflicts of interest between long term environmental concerns and short term profit motives in particular regarding logging and mining; absence of political will (and therefore of allocation of resources) to enforce effective implementation of a relatively comprehensive legal and regulatory regimes marked by a lack of clearly defined mandates and responsibility between the various layers of central and local authorities. Illegal (international) timber trade leads to corruption and money laundering activities.

The state of the environment

- High population growth rate, severe rural poverty and inequity and lack of security of tenure in the agriculture areas put pressure on the forest, forcing poor people to move to the uplands marked by fragile eco-systems. Only 8% of the original primary forest remains and many species are under threat. Deforestation has made many poor communities more vulnerable to natural calamities such as landslides and floodings. Soil erosion has accelerated dramatically and is estimated at 50% of the fertile top layer in the last 10 years. The country has been identified as one of the five hotspots (i.e. most threatened areas on earth, ADB 2005).
- Over-fishing and destructive fishing practices are main threats to the marine environment; average catch per day is less than 3 kg down from 10 kg 20 years ago. 70% of the coral reefs are in poor to fair condition and degradation is unabated.
- Just over 36 percent of the country's river systems are classified as sources of public water supply.
- Generation of waste is increasing rapidly as consumption rises, while collection efficiencies are dropping as service levels deteriorate. 40% of the country's solid waste remains uncollected.
- Metro Manila (currently 16th on the global top 20 of Mega cities with 10.9 million inhabitants) has been ranked by WHO as one of the five most polluted cities in the world. The largest contributors to this problem are fossil fuel combustion from small and medium industrial and commercial installations.

Environmental policy, legislative and institutional framework

Government addresses environmental and natural resource management through a rather comprehensive legal and regulatory regime for the sector with some sophisticated approaches. Neither illegal logging nor timber trade is designated a predicate offence under the anti-money laundering legislation.

The Philippines has ratified the Biodiversity Convention, the Kyoto Protocol, the Ozone Depletion Multilateral Agreements, and the International Tropical Timber Agreement among other key international instruments on environment protection.

The Department of Environment and Natural Resources (DENR) is the primary government agency responsible for the conservation and proper use of the natural resources. DENR is prone to outside pressure and suffers from internal conflicts of interest between having to protect certain areas and granting mining or logging permits. Many other public institutions have unclear and overlapping mandates on environmental protection, and coordination among them is inadequate. However, recently, DENR has taken steps to strengthen its institutional capacity.

Environmental and natural resource management in the Philippines receives a small share of the national budget. In 2004, it was only 0.8%. DENR and the LGUs are able to only cover their basic expenses, mainly salaries, and no investments at all, making it impossible to fulfil the mandatory tasks.

The Philippines has one of the most active and developed civil society at large and specific environmental NGO communities in particular in the Asia-Pacific region. NGOs play a major role in bringing environmental benefits into the community.

Sectoral integration

Community-Based Forest Management (CBFM) is the primary strategy for managing the country's forest resources. CBFM gives extensive rights and responsibilities to local people in managing forests. In practice, an array of legal problems and complications exist in most of the cases. Many communities do not know or fully understand their legal rights and options. Besides social and community forestry, reforestation activities have also included large scale government and industrial plantations and private tree farming, with limited success.

In some municipalities, appropriate land use management systems and soil conservation techniques have been developed to minimize land degradation, indiscriminate conversion, and consequent deterioration of land productivity. Private firms are increasingly adopting voluntary environmental guidelines. Nevertheless, these initiatives have a very limited impact at the national scale. Although beach-based tourism remains the mainstream in the Philippines, for the past few years, eco-tourism has slowly been gaining attention. Some cities and municipalities have started or are planning to convert their open dumps into controlled dumpsites and sanitary landfills. LGUs have intensified their efforts to make collection more efficient. Alternative economic yet sustainable uses of forest resources remain under utilised.

Philippines have long maintained an industrial pollution regulatory system. There has been little progress on sustainable production and consumption issues (recycling, eco-labelling, green procurement, etc.).

EC and other international development assistance

EC supports natural resource management issues either by integrating environmental components in economic and social development projects, or through specific environmental protection projects. By 2004, overall EC commitment to environmental actions in the Philippines totalled almost € 15 million (composed of bilateral environment projects proper, major environmental components of other projects and Philippine-based share of regional projects³⁶). The Philippines also benefit from the ASEAN Centre for Biodiversity, hosting its headquarters (as well as that of ACB's predecessor, the ARCBC); ARCB and ACB play a key role in the environmental protection and biodiversity conservation both at the level of each specific member country as at the regional level at large.

There are now less international cooperation projects in the environment sector than in the past. Confronted with GOP's own lack of commitment and even more so of its weakness in effective implementation of environmental laws and programmes, various donors have been reducing their funding allocations to the environment sector. Most of the aid to the environmental sector is bypassing the DENR and going directly to NGOs and LGUs. Major donors are ADB, WB, US, Japan, EC, Germany and Sweden.

Recommended priority actions

The EC commitment to environmental protection in the Philippines will continue to use a mix of policies and instruments to enhance the sustainable use of natural resources and ease pressure on them.

In addition to projects funded from thematic budget lines and/or the Asia-wide or ASEAN-wide programmes, directly or indirectly related to the environment, emphasis will be on mainstreaming environmental focus and concerns in projects and programmes funded from current and future NIPs. Major ongoing rural development programmes will actively pursue replication of proven environmental best practices. Forthcoming sector-wide approaches in health and education could incorporate environmental concerns and be used as vectors to effectively encourage environmental awareness and combat the linkages between poverty and a deteriorating environment. The Small Project Facility will continue to include the environment (linked to the MDGs) among its priority areas for funding. Last but not least, the EC will continue to collaborate with civil society to encourage GOP and the private sector to take a more pro-active environmental stance and to effectively tackle the key issues of enforcement of and respect for environmental legislations and international commitments.

ANNEX IV

Donor Matrix

Annex IV Donor matrix

Estimated figures

Amount committed in 2004 (million euros)

DAC Code	110	120	140	150	160	210	230	310	320	330	410	420	430	700	TOTAL	%
Sector	Edu- cation	Health	Water & Sanit	Gov't. & civil society	Other soc. infrast.& services	Trans- port	Energy	Agricul- ture	Industry	Trade	Environ- ment	Women in dev't	Other multi sector	Emer- gency &recon.		
Overall	17.78	3.583	1.9205	43.2847	38.021	307.0597	64.0248	117.425	0.02	3.9029	3.4862	0.3706	64.738	4.4505	670.0669	100%
Multilaterals	0	0.15	0	0.74	1.4	0.75	19.63	47.63	0	0	0	0	2.7	0	73	11%
WB		0.15		0.55	1.4		18.5	47.44							68.04	10%
ADB				0.19		0.75	1.13	0.19							2.26	0%
UNDP													2.7		2.7	0%
EU	3.72	3.41	1.17	9.92	25.98	6.3	44.39	29.02	0.02	3.9	3.26	0	50.72	4.45	186.26	28%
EC	1.71			5.86			1.11			3.9	2.37			3.45	18.4	3%
EIB													40		40	6%
Austria					25.9										25.9	4%
Belgium	0.3			2.5		6.3		1.8						0.03	10.93	2%
Czech rep.			0.14				0.36								0.5	0%
Finland		0.2		0.2											0.4	0%
France							22.9								22.9	3%
Germany															0	0%
Italy			1					26.2						0.1	27.3	4%
Netherlands													4.81		4.81	1%
Portugal	0.05														0.05	0%
Spain	0.75	3.21	0.03	0.1	0.08		20.02	1.02	0.02				2.02	0.3	27.55	4%
Sweden	0.13			1.08							0.64		1.08		2.93	0%
UK	0.78			0.18							0.25		2.81	0.57	4.59	1%
Others	14.06	0.023	0.7505	32.6247	10.641	300.0097	0.0048	40.775	0	0.0029	0.2262	0.3706	11.318	0.0005	410.8069	61%
Australia	10.12		0.75	18.75	9.82			1.5					11.31		52.25	8%
Canada				13.87								0.37			14.24	2%
China						300									300	45%
Japan	3.93							1.44							5.37	1%
New Zeland					0.82						0.22				1.04	0%
S.Korea								37.81							37.81	6%
United States	0.01	0.023	0.0005	0.0047	0.001	0.0097	0.0048	0.025	0	0.0029	0.0062	0.0006	0.008	0.0005	0.0969	0%

ANNEX V

Chronological Evolution of Amounts Contracted and Paid

€ / Philippines										
	2002		2003		2004		2005		2002-2005	
Budget Line / Domain	Contracts	Payments	Contracts	Payments	Contracts	Payments	Contracts	Payments	Contracts	Payments
Total	94,243,733.41	84,564,153.06	64,293,094.66	67,793,174.84	7,243,649.78	6,552,652.68	29,658,403.90	34,842,311.25	195,438,881.75	193,752,291.83
19.100 - Asia	0.00	0.00	0.00	0.00	700,000.00	0.00	6,810,830.00	3,261,700.00	7,510,830.00	3,261,700.00
B73000 - Asia	0.00	0.00	0.00	0.00	261,995.00	0.00	16,338,691.69	15,587,070.69	16,600,686.69	15,587,070.69
B73020 - Refugee Rehabilitation	0.00	0.00	5,615,952.00	4,248,052.00	3,000,000.00	2,217,040.00	-3,000.00	825,570.05	8,612,952.00	7,290,662.05
B76200 - Environment	0.00	0.00	652,811.00	261,823.00	0.00	0.00	0.00	197,004.00	652,811.00	458,827.00
B76201 - Tropical Forests	0.00	0.00	1,268,014.00	1,141,212.20	0.00	0.00	0.00	126,801.80	1,268,014.00	1,268,014.00
B77010 - Human Rights	300,000.00	0.00	0.00	82,000.00	0.00	0.00	0.00	0.00	300,000.00	82,000.00
Multi	93,943,733.41	84,564,153.06	56,756,317.66	62,060,087.64	3,281,654.78	4,335,612.68	6,511,882.21	14,844,164.71	160,493,588.06	165,804,018.09
1: This table was created manually on the basis of the information generated by the CRIS reporting module "Chronological Evolution" of Measures/Projects on 1/8/2006										

ANNEX VI Policy mix analysis - coherence

The relations with the Philippines are governed by various policies, the strategic priorities of which are mutually reinforcing. Thus, the essential elements of EU development policy are covered including the principles within which the EU is founded and are common to the Member States.

A new partnership with South East Asia: In line with the core objectives of the Asia wide strategy, this strategy proposed revitalising the EU's relations with ASEAN and the countries of South East Asia. The Commission recognised several reasons for enhanced relations between the two regions, including important political and economic interests; common features and values including diversity and regional integration; and increased interdependence particularly in addressing global challenges such as environmental degradation, new health challenges, terrorism and transnational criminality.

Trade: The European Union is committed to supporting developing countries' efforts to integrate into the trading system to help them reap the benefits of market opening. In recent years, the EU's approach to trade policy has evolved in terms of the scope and the level of ambition sought for both trade and investment liberalisation and rule-making.

ASEAN and the EU share a vital interest in the development of a rules-based multilateral trading system. While their trade with each other is important, trade with third countries continue to outweigh their bilateral trade and needs the legal certainty and the liberalisation that will come with the successful conclusion of the DDA. Co-operation with each other on WTO should therefore be the first priority on the trade agendas of ASEAN and the EU. The 2003 partnership strategy above also covers trade initiatives and initial thinking on a possible future trade agreement with ASEAN.

The DCI Regulation: Another basis for cooperation is European Parliament and Council Regulation (EEC) No.1905/06.. of 18 December 2006 on financial, technical and economic cooperation with the developing countries in Asia and Latin America (DCI). This regulation specifies that the aim of Community development and cooperation policies is human development. The Community attaches utmost importance to the promotion of human rights; support for the process of democratization; good governance, environmental protection, trade liberalization, and strengthening the cultural dimension, by means of an increasing dialogue on political, economic and social issues conducted in mutual interest.

/-The objectives of cooperation are defined in a broad way, to make it possible to intervene in all areas of cooperation covered by the agreements between the Community and the partner countries and under the policy and cooperation guidelines adopted in the relevant fora. The Regulation refers in particular to the following: sustainable development, poverty reduction, the integration of the partner countries in the world economy, trade and investment, regional integration and strengthening the links between the partner regions and the European Union. Similarly, the modernisation and improvement of institutional capacities is included as an essential principle of

cooperation. This will contribute, in particular, to the development and consolidation of democracy and to the respect for respecting human rights and fundamental freedoms.

Development policy: The principal aim of the Community's development policy is to reduce poverty with a view to its eventual eradication. This is grounded on the principle of sustainable, equitable and participatory human and social development. Promotion of human rights, democracy, the rule of law and good governance are an integral part of it. This objective entails support for sustainable economic and social and environmental development, promotion of the gradual integration of the developing countries into the world economy, the creation of productive and decent employment opportunities and a determination to combat inequality.

Coherence for Development: On 12 April 2005, the Commission adopted a Communication on "Policy Coherence for Development – Accelerating progress towards attaining the Millennium Development Goals". In this Communication, the EU reconfirms and strengthens its engagement to effectively deliver and monitor delivery within the given MDG timeframe between now and 2015.

The Commission has identified 11 priority areas where the challenge of attaining synergies with development policy objectives is considered particularly relevant, namely: trade, environment, security, agriculture, fisheries, social dimension of globalisation, employment and decent work, migration, research and innovation, information society, transport and energy.

Food safety - Sanitary and Phyto-sanitary (SPS) legislation: The EU integrated approach to food safety aims to assure a high level of food safety, animal health, animal welfare and plant health within the European Union through coherent farm-to-table measures and adequate monitoring, while ensuring the effective functioning of the internal market. EU SPS legislation has become more complex as the amount of new legislation increases. On the other hand, the EU has made big efforts over the past years to recast part of its SPS legislation dealing with hygiene standards and food and feed controls making it simpler. Moreover the Commission is providing training in 2006 on this new legislation to the Philippines both on fruits and vegetables as well as on fish and fishery products.

The bulk of the import conditions is harmonised EU-wide, however, some are not yet harmonised at EU level, which may lead to confusion and allegations of differential and discriminatory treatment by the Third Country. However, most of these concerns will be overruled by the coming into force of the EC Regulation on food and feed controls (882/2004).

There are many problems in the fishery sector, including the products intended for export. A Commission FVO inspection mission has had a negative outcome and there was need to improve the competence of the competent authorities in addition to more technical problems. Nevertheless the country has yet been able to continue export to the EC. In 2005, a team of two Member States experts has visited the country to provide technical assistance and advice. More technical assistance has been provided under the EC/ITC Asia Trust Fund but it is not yet clear if this will be sufficient.

Assessment: The strategy for the Philippines is consistent with the priorities set out in the above Community policies. These policies also provide dialogue and cooperation mechanisms either at the bilateral and/or regional levels. In particular, the 2003 partnership strategy with South East Asia indicates that the application of which approach depends on the nature of the issues that are being addressed – regional approaches are preferred when economies of scale are evident or when the chances of success are greater within a regional or sub-regional frame. This flexibility however may not always be seen as favourable on the part of the Philippine authorities (in the sense that the activities may not always address their own national priorities, difficulties encountered in tapping regional programmes, etc.)

ANNEX VII Poverty: smaller % of the population but growing numbers

In its recently published Philippine country poverty analysis³⁷, the ADB adopts a multidimensional approach to poverty analysis, based on income and asset deprivation³⁸, which builds on the results of various studies and constitutes the basis for this annex.

Evolution of income poverty in the Philippines

Measurement method

Poverty is measured in the Family Income and Expenditure Surveys (FIES)³⁹, which are undertaken every 3 years by the Philippine National Statistics Office (NSO) since 1985. These surveys measure poverty using two nationally-determined poverty lines i.e. the *food threshold* which is a measure of food needs and the *poverty threshold* which is a measure of food needs and nonfood basic needs⁴⁰. Philippine poverty thresholds differ from the international poverty lines (IPLs) of 1 US\$ or 2 US\$ per day, which are for international comparisons and are to be understood at 1993 purchasing power parity (PPP) prices⁴¹.

Methodological issues

The analysis of the evolution of the poverty incidence over time raises methodological issues, because significant methodological changes were made in the determination of the Philippine poverty threshold (in 1992⁴² and in 2003⁴³). For example, the latter included a new pricing method for the expenditure items which form the basis for determining the poverty line (substitution of ordinary rice to special rice in the minimum food basket). The new methodologies result in significantly lower poverty incidence ratios⁴⁴. Other methodological issues point to a possible underestimation of poverty headcounts. For example urban poverty is measured through a sampling method that excludes families without a permanent and official residence⁴⁵.

Evolution of income poverty

Percentage of Filipino families below the poverty threshold according to different methodologies

	1985	1988	1991	1994	1997	2000	2003
1985	59.0	-	-	-	-	-	-
Method							
1992	44.2	40.2	39.9	35.5	31.8	33.7	-
Method							
2003	-	-	-	-	28.1	28.4	-
Initially approved method							
2003 re-visited method	-	-	-	-	-	27.5*	24.7*

*Preliminary estimates, National Statistical Coordination Board website, 25 January 2005

The above table shows that except for the period 1997-2000, poverty incidence expressed as a percentage of families living under the poverty threshold decreases in the Philippines. Families living under the food threshold declined from 12.3% in 2000 to 10.4% in 2003⁴⁶. The same trend can be observed using IPLs.

Poverty incidence is significantly higher when expressed as a percentage of the population living below the poverty threshold (33% and 30.4% in 2000 and 2003 respectively), because families are significantly larger in the poorest segments of the population. Rapid population growth (2.36% per annum) pushes the actual number of poor upwards (from 26.6 million in 1985 to 30.8 million in 2000). In other words, poverty decreases in relative terms but there are more and more poor Filipinos.

Average national figures hide extremely high geographical disparities:

- 1 In 2003, population poverty incidence exceeds the national average in 11 of the country's 17 regions and is over 40% in 7 regions⁴⁷.
- 2 Population poverty incidence has increased in 5 regions between 2000 and 2003.
- 3 Poverty incidence is much higher in rural areas (47% of families in 1985 and 2000) than in urban areas (19.9%).

Finally, poverty is a condition subjectively perceived by the poor themselves. Surveys conducted by Social Welfare Stations (SWS) in 2003 reveal that 62% of families rate themselves as poor⁴⁸.

Causes of poverty

Lack of access to essential capital assets are a major issue in the Philippines:

- 1 *Human capital*. Only 67% of children who enter first grades complete elementary school. Geographical and financial access to health care services is poor.
- 2 *Financial capital*. The poor increasingly spend more than they earn. Access to microfinance is limited.
- 3 *Natural capital*. Environmental indicators are poor in the Philippines. Environment degradation particularly affects the poor. Access to land remains limited⁴⁹.
- 4 *Physical capital*. Many families in the lower 40% income group do not have access to electricity, and access to drinking water, sanitary toilets and house ownership has declined between 1999 and 2002.

However, access to *social capital* is high: 26% of families have at least one member involved in a people's organisation or a NGO.

Overarching causes of poverty include:

- 1 Weak macro-economic management an unattractive investment climate and a loss of international competitiveness.
- 2 Lack of productive and decent employment and income opportunities; low income, the lack of labour rights for certain categories of workers and illgal migration.
- 3 Excessive population growth.
- 4 Governance and security issues.

ANNEX VIII Human Rights

1. Context: The 1987 Philippine Constitution recognises respect for human rights, due process of law and international laws as part of the fundamental law of the land (Declaration of State Policies and Bill of Rights). The same Constitution created a Philippine Commission on Human Rights (PCHR); its Members are appointed by the President for a fixed 7 year term; thus, not totally independent. Budgets are automatically assured by Congress by virtue of the Paris Principle. The PCHR is tasked to provide services to Filipinos (including those residing abroad) through: investigation of all forms of human rights violations involving civil and political rights; the monitor of compliance with international treaty on human rights; visitorial powers over detention facilities. The PCHR recommends measures to Congress re human rights promotion and compensation of victims of HR violations. However, it is hampered by the lack of prosecution powers and poor financial and human resources.

2. UN Treaty Ratification: Most UN human rights conventions have been ratified by the GoP and incorporated into domestic law. Implementation of treaty obligations remains a problem. Even its reporting obligations (to Treaty Monitoring bodies) are delayed. Due to political dynamics, some international conventions have not been ratified by the GoP, such as: Second Optional Protocol to the International Convention on Civil and Political Rights (ICCPR, abolition of death penalty), Optional Protocol to the Convention Against Torture (CAT), the International Criminal Court (ICC).

3. Human Rights Violations: The various Treaty Bodies are mainly concerned by the following human rights violations:

- 1 The lack of appropriate measures to investigate crimes allegedly committed by State security forces and agents, in particular those committed against human rights defenders, journalists (in 2004 and 2005, second only to Iraq for journalists killed) and leaders of indigenous peoples, and the lack of measures taken to prosecute the perpetrators; this situation is conducive to a culture of impunity to flourish.
- 2 Death penalty is imposed on 52 crimes. 19 minors (below 18 years of age) have been sentenced to death and are part of the thousand plus “death row inmates”;
- 3 Indigenous peoples (IPs) displaced by counter-insurgency and mining operations;
- 4 Numerous instances of trafficking of women and children. While a new law was passed, measures are still insufficient to prevent trafficking and provide assistance to the victims;
- 5 The promotion of overseas work whilst lacking a national focal point to provide information and support services for migrating and needy Filipinos, especially women;
- 6 Persistent reports of ill-treatment and abuse (due to lack of a law prohibiting torture), including sexual abuse, in situations of detention and children being detained together with adults a vaguely worded anti-vagrancy law is used to arrest persons without warrant, especially women and children in prostitution, and street children; jail congestion; Child soldiers recruited by insurgent groups; child labour, especially in domestic services.
- 7 For the past years, rape, battering and abuse of women and children (including incest - no specific law) topped the reported cases to the PNP and the DSWD;
- 8 State restriction of availability, access to, and delivery of, the full-range of sexual and reproductive health information and services, including contraception and post-abortion care; 300,000-500,000 women undergo clandestine abortions despite legal sanctions, women undergoing abortion are often denied proper/timely medical services

- 9 Automatic appropriation for debt payments substantially cuts down the national budget for education and other social services (including public health);
- 10 Access for disabled persons not observed even by government agencies/ infrastructures

4. Human Rights Defenders: Various human rights defenders (including advocates for rights of children, women, IPs) have been submitting alternative reports to the various Treaty bodies and providing interim services to vulnerable groups.

Communist Party of the Philippines (CPP) / New People's Army (NPA)

The CPP/NPA, result of the first split of the Left movement, emerged as a revolutionary guerrilla group during the worldwide surge of communist armed groups in the late 1960s. China provided material support from 1969 to 1976, the period where the communist insurgency gained momentum. With the initial aim to overthrow the government to implement a communist system, it maintained its struggle to fight “US imperialism” and the domestic political and business elite.

Currently the NPA derives its funding mainly through extortion of local businesses and foreign companies. Having been active for 36 years, the CPP/NPA has established itself, not only as an armed group, but as a social movement, recruiting its members mainly from the impoverished rural population, pushing for land reform and engaging with their base communities. Even though the government rightly accuses the NPA of pursuing criminal and terrorist activities, the feudal structure of Philippine society with its protracted inequality, and the bleak future for most of the rural Filipino youth can be seen as the underlying cause for the existence and persistence of the communist insurgency.

In early 2005, the NPA comprised around 8200 combatants, with presence in 70 out of 79 provinces and strongholds in Mindoro, Mindanao, Luzon, Bicol, Quezon Province and Isabella. It appears to be somewhat fragmented, with three assassinations of communist breakaway movement leaders undertaken by NPA in the period of 2000-2004.

Peace talks between the Government (GoP) and the National Democratic Front (NDF), the political arm of the movement comprising both CPP and NPA, started in 1992 and led to an agreement to open negotiations on human rights, socio-economic reforms, poverty, political and constitutional reform, and cessation of hostilities. Peace talks were terminated by NDF during the Estrada Administration and reconstituted under auspice of the Norwegian government in Oslo in April and June, 2001. Yet, the talks were suspended by the Government, due to congratulatory statements issued by the NDF to the NPA on the political assassination of outgoing congressman Rodolfo Aguinaldo.

In August and September 2002, the CPP, NPA and self-exiled leader Jose Maria Sison were placed on the US and EU terrorist lists. After 2½ years of recess, the two sides resumed formal talks in Oslo in February 2004. A Joint Statement was signed, where the two parties agreed that effective measures should be undertaken to resolve the outstanding issue of the terrorist listing. A second and third round of talks was conducted in March-April and June, 2004. During the latter, the NDF demanded the US and the EU to remove the CPP/NPA from their terrorist lists, in order for the negotiations to proceed satisfactorily. Dialogue was thereafter unilaterally suspended by NDF in August 2004, claiming that the Government was not committed to push for the delisting of the communist groups from the US and EU terrorist lists. The Joint Secretariat stopped operating but was not dissolved.

The GoP released 113 out of 121 political prisoners after the disruption of the talks in 2004, but has not openly called for the delisting of CPP/NPA. 6 CPP members were elected into Congress in May 2004. A Committee on Peace, Reconciliation and Unity, chaired by NDF leader Satur Ocampo and comprising a representative from the MNLF, was created, but negotiating positions seem too far apart for imminent progress on peace negotiations to occur.

Moro National Liberation Front (MNLF) / Moro Islamic Liberation Front (MILF)

The conflict in Mindanao has historical roots dating back to the arrival of the Spanish in the 16th century. In the early 1970s, resistance to Marcos rule and massacres of Muslims to justify a “State of Emergency”, to increasing Christian settlement and to large-scale logging and mining activities, was channelled through the creation of the MNLF, who fought for an independent Muslim state in Mindanao.

A first peace agreement with the MNLF was signed in 1976 in Tripoli, entailing a measure of self-rule for areas of Mindanao where Moros predominantly lived, but was never properly implemented in the eyes of the Moro group, which refused to disarm. In 1977, the MILF emerged as a dissident group of MNLF and continued the armed struggle after the latter signed a final peace agreement with the GoP in 1996. The structural causes for Muslim insurgency should not only be seen in religion, but more so in the constant neglect of the Mindanao region by central government since independence and uneven access to land. This translates into protracted poverty and lack of opportunities for the Moro population, which feed into animosities against the government and Catholicism as a symbol of century old oppression.

By the end of 2004, the MILF comprised around 11,000 members operating mainly in Central Mindanao. By entering into peace talks with the Government since 2001, the MILF implicitly abandoned its struggle for an independent state, but agreed to find a solution entailing increased autonomy for the Bangsamoro people. The MILF is not classified as a terrorist group, neither nationally nor internationally. It appears to suffer from fragmentation, as breakaway groups – from which the MILF leadership officially distances itself - have sporadically clashed with Government troops throughout the past years. Informed sources confirm that 2 MILF leaders with approximately 2,200 combatants were operating separately from MILF chairman Murad, as of February 2005.

The GoP–MNLF peace agreement was signed in Jakarta in August 1996, establishing a Special Zone of Peace and Development in the Southern Philippines under chairmanship of the MNLF, composed of 14 provinces representing around 23% of the total land area and 14% of the total population in the Philippines. Less than a year later, the MILF agreed on a ceasefire with the GoP that ended when President Estrada declared an “all-out war policy” towards MILF in April 2000. In August 2001, peace talks resumed under President Arroyo and both sides agreed to implement the 1976 Tripoli Peace Agreement. The Agreement comprises security, rehabilitation and ancestral domain issues (mainly rights on land and natural resources). Both parties signed the Agreement’s implementing guidelines on security in 2001. In May 2002, the implementing guidelines on humanitarian rehabilitation and development were signed. Talks were brought to a halt in February 2003 when the military launched an assault on MILF-controlled territories in

pursuit of terrorist elements. After MILF issued a statement rejecting terrorism, the military withdrew from MILF headquarters, and a new formal ceasefire agreement was signed in August 2003. Exploratory talks were held under the auspices of the Malaysian Government, and a Joint Ceasefire Coordinating Committee was tasked to monitor the agreement.

Resumption of formal peace talks was deferred throughout the years 2003 and 2004. In October 2004, a 60-member International Monitoring Team (with members from Brunei, Malaysia and Libya) was deployed to Mindanao with a mandate to monitor the effective implementation of the GoP-MILF ceasefire for the duration of one year. Sporadic skirmishes between the military and MILF elements occurred in 2004 and 2005, with a serious clash in Maguindanao in January 2005. Yet, these events did not hamper the official GoP position to continue peace negotiations, as the MILF leadership formally distanced itself from the incidents.

Exploratory informal peace talks have been held in April 2005 and February 2006 in Malaysia, which dwelled on the issue of ancestral domain, the final agenda topic of the 2001 Tripoli Peace Agreement. Both GoP and MILF expressed deep satisfaction over the results of the meeting. However, both parties also agree that more technical level discussions on this crucial matter will be required to exhaust all possible consensus points before the start of formal negotiations. Despite stated interest from both sides to resume formal peace talks, it remains unclear if and when a final consensus on ancestral domain will be reached.

ANNEX X

Indigenous Peoples

Legal Framework: The rights of indigenous peoples in the Philippines as defined in Republic Act 8371 or the IPRA Law of 1997⁵⁰ is anchored on the recognition and respect of five (5) basic rights, namely: (a) rights to ancestral lands and domains; (b) the right to self-governance; (c) social justice and human rights; (d) right to protection and preservation of indigenous culture, traditions and institutions; and (e) right to basic services. A National Commission on IP – composed of tribal members – awards “ancestral domain lands” to IP on the basis of communal rather than individual ownership, impeding the sale of the lands by tribal leaders. Legislation is not fully implemented because of opposition from particular mining and agri-business interests.

Challenges: IPs account for approximately 16% of total population and live primarily in the mountainous areas of northern and central Luzon and in Mindanao. No specific laws discriminate against IPs, but the remoteness of the areas that many inhabit and cultural bias hamper their full integration into society. Specific concerns include:

-On Ancestral Domain and Lands: conceptual and physical overlaps with agrarian reform, community forest management, protected biodiversity, mineral and other special “areas” defined by the government. The issue of land rights and ancestral domain remain a contentious issue in the peace negotiation between the GOP and MILF. This underscores that the greatest potential threat to the peace and order situation in Mindanao is conflict over land and land-related exploration and exploitation rights.

-On Basic Services: There is a need to ensure that government approach to service delivery is sensitive to indigenous peoples’ culture, tradition and institutions. National and local governments should also be enabled to understand the indigenous concepts of development, resource-use and management and appropriateness of established structures and processes. IP children suffer from lack of basic services, health and education. A report by the Department of Education revealed that IP children were falling behind in the quality of education.

-On Social Justice and Human Rights: The UN Special Rapporteur mentions that various forms of harassment and intimidation committed against the IPs are directly related to conflicts in land and suppression of their ancestral domain and rights. It is important therefore to promote peace in the IP communities by ensuring that they are able to avail of the same rights and protection and privileges that all other Filipinos in general are able to enjoy.

-On self- governance: IPs in general, resist projects and programs that are externally determined and threaten their ancestral domain and land rights and cultural heritage. There is a need to strengthen mechanisms for meaningful participation of the IPs including their capacity for self-governance.

-On conflict: IP suffer excessively from armed conflict since they often live in mountain areas where different guerrillas operate.

ANNEX XI

Decentralisation and Local Governance

Situation Analysis: The enactment of the Local Government Code in 1991 devolved the responsibility for the delivery of many basic and infrastructure services to the Local Government Units (LGUs). This devolution came with some form of fund transfers from the national government to the LGUs called the Internal Revenue Allotment (IRA), although not always with the required amount or know-how transfer to ensure effective decentralisation of services. In the past 13 years of implementation of the Local Government Code, there have been significant changes in the way LGUs manage their local affairs and in the way national government relates with LGUs and in the way people, through civil society organisations (CSOs) participate in local governance. Many LGUs have also developed innovative practices in development planning in consideration of economic, environmental, social and cultural factors. However, such gains are not enough to achieve widespread progress and genuine decentralisation. Many parts of the country remain poor and the population deprived of basic social services. This may be attributed primarily to the limited IRA received by the LGUs. The IRA was low (40% of the internal taxes collected by the national government) and was not automatically given to the LGUs. In addition, there is an uneven level of capacity and capability of both civil society organisations and LGUs in good governance (e.g., management functions, technical skills in fiscal management, land use planning, resource valuation, policy development, etc.). The MTPDP acknowledges the key role LGUs should play in achieving the national priority agenda and recognizes the importance of good governance in addressing poverty. However, most of the MTPDP measures are focused on developing infrastructures rather than on capacity-building of LGUs. In the march 2005 Philippines Development Forum (PDF), Decentralisation and Local Governance was identified as a key area of concern to foster the partnership between national government and LGUs towards national socio-economic development.

Challenges: Some of the key issues identified in the PDF were:

a.) Local Governance Framework

- Need to harmonise capacity-building efforts for LGUs, including setting up a sustainable mechanism for rationalization of capacity building activities;
- Need to institutionalise performance benchmarking systems; Need to clarify roles between national line agencies and LGUs for the effective delivery of services (e.g., in health, social services, etc.).

b.) Local Finance

- Need to consider well-targeted performance grants without creating moral hazards (i.e., dependency on grants);
- Need to explore untapped LGU revenue base (e.g, centralised land valuation, privatisation of assets);
- Need to harmonise central government financial institutions on-lending terms of funds sourced from Official Development Assistance (ODA);
- Need to promote anti-corruption practices at the local level.

c.) Legal Framework:

Need to conduct a broad review of the implementation of the Local Government Code particularly the review of the IRA formula to enable the LGUs to cover the cost of devolved functions

The Philippines is considered one of the most disaster prone countries in the world. It ranks 4th in the world listing of high risk countries in terms of natural disasters, such as typhoons, earthquakes, volcanic eruptions, floods, tsunamis, landslides and drought. Annually, the country is swept by an average of 25 typhoons that causes flooding & landslides. It is surrounded by six major trenches and thousands of kilometres of fault lines. It also lies along the “Pacific Ring of Fire” with 200 volcanoes distributed along five volcanic belts, 21 are considered active. Man-made disasters also place the Philippines among the high risk countries resulting from armed conflict/militarization/terrorist incidents, deforestation, mining, fire, pollution, development aggression.

Under the law (PD1566), each LGU is mandated to have its own Disaster Management Plans (DMP) with the National Disaster Coordinating Council being the lead agency. Although the Philippines has built up a systematic method of responding to disasters down from the national to the local level and has built a network of disaster response organizations with linkages to various international and private funding sources, disaster management in the Philippine context is basically just response and relief and very little on reducing risk, mitigation and preparedness (i.e. appropriate land-use planning, construction, other preventive measures to avoid disaster prone conditions). Many poor are located in rural areas and heavily dependent on agriculture, a potentially highly hazard-vulnerable occupation.

The NDCC is the highest policy making, coordinating & supervising body at the national level. It recommends the declaration of state of calamity and the release of national calamity fund. Under the Local Government Code, 5% of the internal revenue allotment shall be set aside for relief, rehabilitation, reconstruction during the budget year. The impact of these disasters costs the government an average of PHP15 billion per year in direct damages, or more than 0.5% of the national GDP. The existing financing strategy and funding priorities combined with very limited flexibility in the national budget (due to high levels of non-discretionary spending) leave the government highly exposed to major catastrophe. It is important that a national framework for comprehensive disaster risk management be prepared and implemented that would provide for political leadership and policy support at the highest levels, while facilitating the active engagement and implementation of all stakeholders at the national, local and household levels. The Philippine system tends to be more of a centralized top-down administrative system than a community-based system and there are few incentives for local level initiatives.

In July 2001, House Bill 221 – ‘Streamlining/Strengthening the Phil. DPP Capability’ was filed which however, offered little provisions for preparedness. In Sept. 2003, House Bill 6376 was sponsored to strengthen the capacity of communities to develop disaster resiliency and propose the creation of a separate government body to handle the country’s disaster management work. With the two House Bills filed in Congress, the Phil. Mgmt. Disaster Forum, NGOs, DM practitioners, the academe and health organizations have been lobbying to push for a comprehensive and pro-people disaster management system in the country and the need to institute legislative changes in the present disaster management system. Institutionalizing and mainstreaming DPP into development is likewise deemed essential.

The time horizon of the CSP is nearly 8 years from the present situation which makes a forecast of the future difficult, if not impossible and a relevant analysis of the risks a challenging task. Use of a three case scenario model is the suggested response to this situation (optimistic, muddling through and pessimistic scenario). The proposed strategy tries to cater for all three scenarios through a robust approach but it is however not risk-free. The major risks for the country are:

- 1 Macroeconomic instability
- 2 Terrorist threats and lack of progress in the peace process in Mindanao
- 3 Lack of reform efforts in government
- 4 Continued population growth
- 5 Anti migration moves from countries currently receiving Philippines overseas workers

More on these risks can be found in the relevant chapters and in the CSP. The EC will in consultation with other donors try through continuous dialogue with the Filipino authorities make them aware of the risks and encourage them to take appropriate measures to minimize these risks. This should be facilitated by the EC leading role in sector policy approaches.

The Delegation will also need to monitor permanently risk and crisis indicators as well as critical assumptions of the country strategy and if necessary adjust the focus of its programmes or even its response strategy.

The various scenarios envisaged are described hereafter.

1. Optimistic scenario -> 10% likelihood

ASSUMPTIONS

INDICATORS

Successful political and economic reforms

Automation of the electoral process, party system strengthened, effective bureaucratic streamlining, successful implementation of agrarian reform programme, unemployment rate decreased from 12% in 2004 to 8.9% by 2010, clear separation of State and Religion issues.

Medium term fiscal stability

A balanced budget is reached and public debt to GDP is lowered to 90% by 2010.

Continued high economic growth on per capita basis

GDP growth is increased to a sustainable 7%.

More equitable income distribution

Gini coefficient going back to 0.40, minimum wage increase

Significant reduction of poverty

MDG on poverty reduction is met, the poverty incidence is decreased to 17% (2010), proportion of families below subsistence threshold is decreased to 8.9% by 2010, focused and increased development assistance to Mindanao.

Stable supply of reasonably priced energy and fuel

Energy supply covers 100% of families, stable prices avoid social unrest and increase political stability.

Increased trade and investment flows

Investment rate increased to at least 28% of GDP, increased exports to US\$50 billion, savings to GDP achieve 30%.

Increased competitiveness

2 million hectares of agri-business land developed, 3 million entrepreneurs supported by government mechanisms, implementation of the National SME Development Agenda.

Improved governance

Capacity and participation of LGUs in providing public services is increased, problem of court delays is tackled, Barangay Justice System is strengthened, high government and military officials are sentenced for corruption charges, journalists killing cease

Substantial reduction of population growth

Reduction of population growth rate to 2.00% in 2010, 60% of couples practising responsible parenthood, accessibility of contraceptives at the local level.

Reduced brain drain

Enabling the creation of 10 million jobs, reforms in the health sector induce high skilled medical practitioners to stay in the country.

Improved health and education indicators

Provision of electricity and water to all Barangays in the country, the problem of teacher/education quality is addressed, 3000 school buildings are constructed, tuberculosis incidence is significantly reduced, successful implementation of the government's Health Sector Reform Agenda.

Sustainable peace with rebel

Peace agreement with MILF in place, peace negotiations

groups

resumed with NDF, marginalisation of Abu Sayyaf, rehabilitation and development of conflict areas.

Integration of environmental concerns into all policies

Successful implementation of logging ban, decongestion of Metro Manila, land area covered by forests increases to 1990 level of 21-25%, responsible mining and logging practices imposed.

2. Muddling-through

-> 60% likelihood

ASSUMPTIONS

Some political and economic reforms

Medium term fiscal instability

Low economic growth on per capita basis

Unchanged income distribution

Slight reduction of poverty

Relative stable supply of more expensive energy and fuel

Stable trade and investment flows

Stable competitiveness

Slightly improved governance

Small reduction of population growth

Continuous brain drain

Stable health and education indicators

INDICATORS

Half of the tax bills proposed by the government are belatedly passed by Congress, privatisation of the National Power Corporation to lower public sector deficit pushes through, ODA assistance does not avail of its full potential due to slow pace and low quality of reforms.

Fiscal deficit remains larger than -3% of GDP, government revenues increase by 4% per year and not by the needed 15%, tax collection remains low, major economic instability avoided mainly thanks to constant OFW remittances.

GNP per capita growing by 1% every year.

Gini coefficient remaining high at 0.46 with possible negative effects on economic growth, conflict reduction and political stability

Poverty among families drops from 24.7% in 2003 to 18% in 2010, on-going implementation of the Comprehensive and Integrated Delivery of Social Services programme, no substantial increase in development assistance to Mindanao due to prolonged peace negotiations between the government and MILF.

Energy supply covers 80% of families. Despite of rising oil prices and financial stress of the power sector, the government finds alternative measures to prevent major economic instability and to avoid that consumers pay for the whole price increase.

Investment to GDP growth continues to be an average of 19%, exports remain around US\$38 billion, savings rate remains at 19% of GDP.

Expansion of micro-finance initiatives for SMEs, use of comparative advantage in the electronics business and in business process outsourcing (call centres), new investments in mining.

Improved mechanisms to fight tax evasion, graft and smuggling in place, conviction rate in corruption cases increases slightly from the 14% registered in 2005, lack of reform in the criminal justice system.

Population growth rate from 2.34% in 2000 declines to 2.24%, 50% of couples practice responsible parenthood.

Steady migration flow of 800,000 deployments per year, increased training and deployment of high skilled workers.

AIDS prevalence is contained to 1% of population, access to safe water supply remains 80%, advancement in decentralisation of the health system, government's Schools First Initiative is implemented to improve basic education.

Peace with some rebel groups

Resumption of formal peace talks and eventual peace agreement with MILF, low intensity conflict with NPA, continued military struggle against terrorist groups.

Reactive environmental policies

Continuing slash-and-burn agriculture and illegal logging, risk of landslides and flooding in relation with typhoons remains high.

3. Crisis and instability

-> 30% likelihood

ASSUMPTIONS

Absence of significant political and economic reforms

Fiscal crisis

Negative economic growth on per capita basis

Worsening income distribution

Poverty increase

Unstable supply of highly expensive energy and fuel

Declining trade and investment flows

Declining competitiveness

Worsening governance

Continuous population growth

Accelerated brain drain

Worsening health and education indicators

Intensification of armed conflict

INDICATORS

Paralysis within the state decision-making structures due to lacking party discipline, pork barrel legislation, perpetuation of political and business dynasties, and corruption.

Outstanding public debt surpasses 150% of GDP, excessive losses in government-owned or controlled corporations widen the public sector deficit. In worst case, the government stops servicing its foreign debt, thereby generating major economic instability.

Triggered by economic stagnation, high inequality and high population growth. Tax payers reduced.

Leads to deeper ethnic rifts in Mindanao and more social and political unrest among the impoverished groups throughout the country.

Official poverty incidence of 34% in 2004 increases to 40%, an intensified armed conflict in Mindanao leads to increased displacement and thus higher poverty, marginalisation of indigenous groups by economic encroachment.

Regular blackouts, rising inflation due to high international oil prices.

Increased armed conflict, political instability and poor economic performance lead to further downgrading by global credit rating agencies and thus to reduced investment flows.

Declining level of English language hampers advantage in the service outsourcing market, low investments in education lead to a lower skilled workforce, heavy regulatory system increases the burden of conducting business in the country.

No effective civil service reform to address bloated bureaucracy. Public perception of endemic corruption leads to fewer investments and to apathy among the populace. Organised crime activities rise.

Growth rate of 2.36%, reaching more than 100 million Filipinos in 2015. Negative effect on GDP per capita, on the environment, unemployment, migration, poverty and political instability.

Destabilising migration flows due to population growth. Brain drain also from rural to urban areas.

Net enrolment rate in primary education decreases due to less access to schools. Reduction in the number of fully immunised children due to government's fiscal problem. Persistently high maternal mortality rate, breakout of HIV/AIDS epidemic.

Peace talks with MILF and NPA remain stalled, MNLF and MILF splinter groups gain importance and create strong alliances with Abu Sayyaf and Jemaah Islamiyah, terrorist attacks in large cities intensify, probability of a military coup

Reduced environmental
policies

increases.

Continuing decrease of land area covered by forest to 15% by 2010, decreasing access to freshwater resources leads to conflicts between communities, erosion and destruction of cropland mainly due to higher population densities.

ANNEX XIV Philippines at a glance

The status of the country as to the likely achievement of the Millennium Development Goals at a glance

In October 2006, *United Nations Economic and Social Commission for Asia and the Pacific UNESCAP*, the *United Nations Development Programme UNDP* and the *Asian Development Bank ADP* have issued a report “Millennium Development Goals: Progress in Asia and the Pacific 2006”. This report is the latest update on the progress towards MDGs in Asia and the Pacific. It highlights the region's achievements and exposes issues on which much work remains to be done. The report looks in a more holistic way at overall country progress by assessing absolute MDG indicators in addition to MDG targets.

The report classifies the progress made by each country into 4 categories

- *Early achiever* — Has already met the target
- ▲ *On track* — Expected to hit the target by 2015
- *Off track — Slow* — Expected to hit the target, but after 2015
- ▼ *Off track — Regressing* — Slipping backwards, or stagnating

Goal	1	2	3	4	6	7
	\$1/day poverty Underweight children Primary enrolment Reaching grade 5 Primary completion rate	Gender primary Gender secondary Gender tertiary	Under-5 mortality Infant mortality	HIV prevalence TBC prevalence TBC death rate	Forest cover Protected area CO ₂ emissions ODP CFC consumption	Water urban Water rural Sanitation urban Sanitation rural
Philippines	▲ ▼	▲ ▼ ●	● ● ●	● ●	▲ ● ●	▼ ● ▼ ● ▼ ■ ▲ ■

General Data

<i>Population</i> ¹	86 Million (by sex, 42.7M females, 43.3 M males; by region, 56% Luzon, 24% Mindanao, 20% Visayas)
<i>Indigenous Peoples/Ethno-linguistic Communities</i> ¹	15-20% of population (about 140 groups); 53% in Mindanao
<i>Religion</i>	Roman Catholic 83%, Protestant 9%, Muslim 5%, Buddhist and others 3%
<i>Land area</i>	300,000 sq. km.
<i>Population density</i>	287 per sq. km.
<i>Annual Population growth rate</i>	2.36% per year (or 5,000 babies are born every day)
<i>Contraceptive Prevalence Rate (CPR, % of married women only)</i> ³	48.9 % (33.4% modern methods, 15.5% traditional methods)
<i>Life expectancy at birth</i>	69.8 years (70.1 females, 64.1 males)
<i>Non-literacy rate (% of population age 15+)</i> ⁴	7% (3.2 M females, 3.1 M Males)
<i>Human Development Index (ranking of 175)</i> ⁵	84
<i>Gender Development Index (GDI)</i> ⁴	63
<i>Corruption Perception Index</i> ⁶	111 th out of 146
<i>GNI/capita (US\$, Atlas method)</i> ⁷	1,080
<i>GDP (current US\$)</i> ⁸	80.6 billion
<i>FDI, net inflows (current US\$)</i> ⁸	1.1 billion
<i>FDI/capita</i> ⁸	13.8
<i>Geopolitical Divisions</i>	17 Regions, 79 Provinces, 117 Cities, 1,500 Municipalities, 41,975 Barangays
<i>MDG Indicators</i>	
<i>Proportion of population living below US\$1/day</i> ¹⁰	15.5%
<i>Prevalence of underweight children (under 5)</i>	28.1% females, 27.2% males
<i>Net enrolment ratio in primary education</i>	93 %
<i>Primary completion rate</i>	90 %
<i>Ratio of girls to boys in primary, secondary, tertiary education</i> ¹	Primary %:39.2 females, 42.3 males Secondary %:34.3 females, 33.5 males Tertiary%:12.3 females, 11.7 males (level of completion)
<i>Under 5 mortality rate(per 1000 live births)</i>	37.0 (my data say 40)-GoP 2002-2004) – from WB 2003 data
<i>Proportion of 1 year old children immunised against measles%</i>	81.7
<i>Proportion of births attended by skilled health personnel%</i>	58.0
<i>HIV prevalence among 15-24 year old pregnant women %</i>	0.06
<i>Proportion of population with sustainable access to improved water %</i> ⁷	86

Macroeconomic & Public Expenditure Indicators in 2003

<i>GDP Growth (annual) %</i>	<i>4.5</i>
<i>Investment/GDP %</i>	<i>19.3</i>
<i>Exports/GDP %</i>	<i>48.9</i>
<i>Imports/GDP %</i>	<i>49.4</i>
<i>FDI/GDP %</i>	<i>1.4</i>
<i>Debt service/GDP</i>	<i>10</i>
<i>Inflation rate %</i>	<i>3.1</i>
<i>Unemployment %</i>	<i>10.2</i>
<i>People living on less than US\$2/day %</i>	<i>47</i>
<i>Public expenditure indicators</i>	
<i>Govt expenditure/GDP %</i>	<i>19.3</i>
<i>Health expenditure/Total Govt expenditure %</i>	<i>2</i>
<i>Education expenditure/Total govt expenditure %</i>	<i>17</i>
<i>Debt service/ Total govt expenditure %</i>	<i>51</i>
<i>Gini coefficient</i>	<i>0.46</i>

ANNEX XV Key components of the MTPDP

Part 1: Economic growth and job creation. The MTPDP identifies nine areas that will spur economic growth and create jobs, namely: a) trade and investment, b) agribusiness, c) environment and natural resources, d) housing construction, e) tourism, f) infrastructure, g) fiscal strength, h) financial strength, and i) labour. Special emphasis was given to the promotion of SMEs, which will contribute to the realisation of the job targets as well as contribute to economic growth and poverty reduction. The Plan aims to create three million micro-enterprises and provide them with credit, technology and marketing support. Another key strategy for job generation is the development of two million hectares of new lands for agri-business that is expected to generate two million new jobs and at the same time enhance the productivity and incomes of Filipino farmers. According to the Plan, labour policies should further be guided by the principles of providing decent and productive employment, i.e. adequate income is generated, rights at work are protected, social protection is provided for, and participation in the democratic process is guaranteed through tripartism and social dialogue.

Part 2: Energy Independence and Power Sector Reforms. The Plan aims to pursue greater energy independence through increased oil and gas exploration, development of renewable energy and expanded use of natural gas. Power sector reforms shall include reduction of electricity rates, resolving the problem of the losses of the National Power Corporation and encourage private sector participation in power generation.

Part 3: Social Justice and Basic Needs. This section is divided into two main areas: a) addressing basic needs, and b) responding to the issues related to achieving national harmony (i.e. automated elections, the peace process, healing the wounds of EDSA, peace and order and the rule of law). Addressing the basic needs refers to the anti-poverty measures outlined in the Plan, which revolve around five goals: a) enhanced livelihood activities through credit support and capacity building, b) asset reform that includes agrarian reform and ancestral domain issues, c) improved accessibility and affordability of essential services including clean water and health care and reducing by half the cost of medicines, d) protection of the vulnerable (i.e. children, youth with special needs, women in difficult circumstances, persons with disabilities and the elderly), and e) empowerment of the poor through the government pro-poor programs.

Part 4: Education and Youth Opportunity. The Plan addresses three areas, namely education, science and technology and culture. On education, the Plan sets seven goals namely, a) provide standardized early childhood education, b) close the classroom gap, c) install distance learning in 500 (initial) conflict areas in cooperation with LGUs and NGOs, d) revise education curriculum to upgrade mathematics, science and English learning, e) provide computers in every public high school through inter-agency collaborations, f) promote school-based management by empowering LGUs, communities, parents and teachers, and g) rationalize the basic education budget.

Part 5: Anti-corruption and Good Governance. The Plan focuses on a) anti-corruption, b) bureaucratic reforms, c) defence reforms, d) foreign policy, and e) constitutional reforms.

ANNEX XVI The Philippines' MDG Progress Report

The Philippines' MDG progress report published in June 2005 showed that the country has made several strides towards the attainment of the MDGs. The report indicated that the Philippines will likely achieve the targets on reducing extreme poverty, child mortality and incidence of tuberculosis, malaria and HIV/AIDS as well as improving dietary requirement, gender equality in education, and access to safe drinking water. However, the country will still be faced with the challenge of closing the gaps in meeting the targets for maternal health, access to reproductive health services, nutrition and primary education. The depletion of the country's natural resource base continues to be a significant threat.

Several cross-cutting issues and concerns were identified that hampered the attainment of the MDGs, which are the i) wide disparities across regions, ii) need to increase resource allocation for MDG-related programs and projects, iii) full/stricter implementation of laws and ensure passage of MDG-supportive bills, iv) need to strengthen monitoring and implementation, v) need to scale-up campaign for localization, vi) need to develop an advocacy plan, and vii) need to intensify multi-sectoral partnership and collaboration.

Cognizant of the country's commitment to the MDGs, the government has mainstreamed the MDGs in its Medium Term Philippine Development Plan (MTPDP) 2004-2010. The MDGs are also mirrored in the President's ten-point pro-poor agenda which aim to shore up the economy, uplift the lives of the Filipinos, strengthen democracy and foster peace and security.

The following table from the Second Philippines Progress Report on the Millennium Development Goals, June 2005, summarizes the rate of progress of the Philippine MDGs.

MDG	Baseline (1990 or year closest to 1990)	Current Level (2002/200 4)	Target by 2015 1/	Probability of Attaining the Targets 2/
Eradicate extreme poverty and hunger				
Proportion of population below the				
Subsistence threshold	24.3 a	13.8 d	12.15	High
Poverty threshold	45.3 a	30.4 d	22.65	High
Proportion of families below the:				
Subsistence threshold	20.4 a	10.4 d	10.2	High
Poverty threshold	39.9 a	24.7 d	19.95	High
Proportion of households with per capita	69.4 b	56.9	34.7	High

Intake below 100% dietary energy

Promote gender equality and empower women

Ratio of girls to 100 boys

Elementary Education	95.8 c	101.8 e	100	High
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Secondary Education	104.5 c	115.9 e	100	High
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Reduce child mortality

Under 5-mortality rate (per 1,000 children)	80	40	26.7	High
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Infant mortality rate (per 1,000 live births)	57	29	19	High
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Halt and begin to reverse the incidence of malaria & other diseases

HIV prevalence	< 1%	< 1%	< 1%	High
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Malaria morbidity rate (per 100,000 pop)	123	48	24.2	High
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Ensure environmental sustainability

Proportion of families with access to safe drinking water	73.7	80	86.8	High
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Eradicate extreme poverty and hunger

% underweight among 0-5 years old children	34.5	27.6	17.25	Medium
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Achieve universal primary education

Elementary participation rate ³	85.1 ^a	90.05	100	Medium
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Improve maternal health

Maternal mortality rate	209	172 ^c	52.2	Medium
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Increase access to RH services

Contraceptive prevalence rate	40 ^b	48.9	70	Medium
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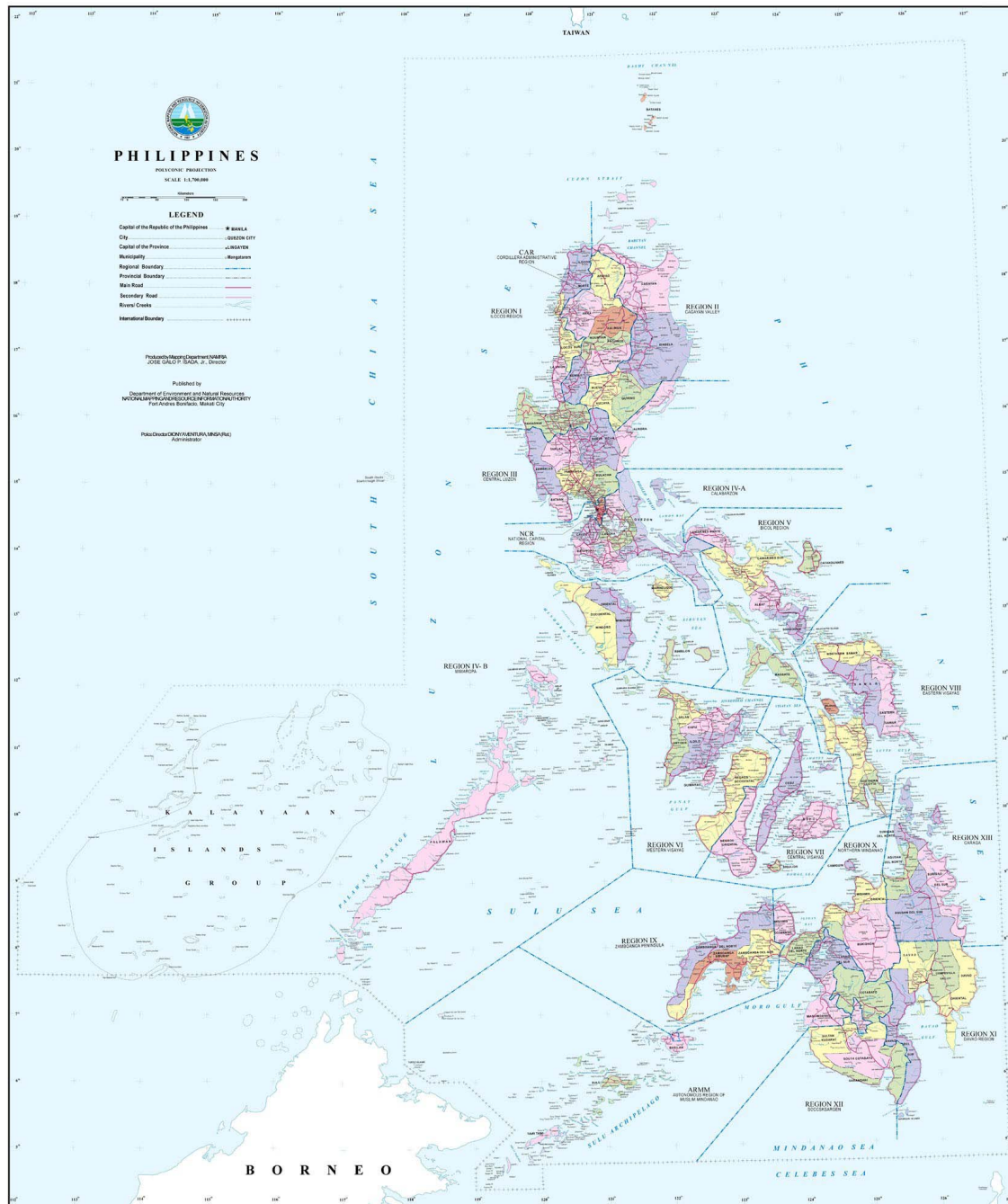
Achieve universal primary education

Elementary cohort survival rate	68.4 ^a	69.8	83.3	Low
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Notes:

1. 2015 target is based on 1990 estimate or the closest year when the data is available.
2. Target by 2010 is based on the MTPDP 2004-2010.
3. Based on Education for all – DepEd targets.
 - a/ 1991: Uses the old methodology considering special rice in the menu and using regional prices; family size is six.
 - b/ 1993
 - c/ 1996
 - d/ 1998
 - e/ Based on preliminary estimates of DepEd.

ANNEX XVII Map of the Philippines



Source: <http://www.namria.gov.ph/>