

NATIONAL INDICATIVE PROGRAMME**2005-2006****PHILIPPINES**

Country/Region:	Philippines
Budget Years:	2005-2006
Budget Lines:	1910.01-1910.02
Legal Base:	ALA Regulation
Cost of Order:	€45 million
Programming Service:	DG Relex H5
Head of Unit:	Pierre Amilhat
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Table of contents

ABBREVIATIONS

1. PREAMBLE

1.1. INTRODUCTION

- 1.1.1. *The ALA Regulation*
- 1.1.2. *The Country Strategy Paper 2002-2006*
- 1.1.3. *The National Indicative Programme 2002-2004*

1.2. THE MID-TERM REVIEW

- 1.2.1. *The Main Political, Economic and Social Developments in the Philippines*
 - 1.2.1.1. *Political Developments*
 - 1.2.1.2. *Economic and social situation*
- 1.2.2. *New EC/EU Policy Objectives and Commitments*
- 1.2.3. *Results, Performances and Lessons Learned*
- 1.2.4. *Quality improvements*

1.3. CONCLUSIONS

- 1.3.1. *CSP's priorities are still valid*
- 1.3.2. *Modifications to the NIP 2002-2004*

1.4. CONSULTATION

- 1.4.1. *Coordination with Member States in Manila*
- 1.4.2. *Dialogue with the Government of the Philippines*
- 1.4.3. *Consultation with Civil Society*

2. SUMMARY OF THE NIP 2005-2006 PLANNED

3. INDICATIVE BUDGET NIP 2005-2006 PLANNED

4. PRIORITIES AND ACTIONS

4.1. HEALTH SECTOR PROGRAMME FOR HEALTH SECTOR REFORM AGENDA

- 4.1.1. *Strategy Context/Justification*
- 4.1.2. *Actions*
 - 4.1.2.1. *Objectives*
 - 4.1.2.2. *Expected results*

- 4.1.2.3. *Activities*
- 4.1.2.4. *Implementation*
- 4.1.2.5. *Cross-cutting issues*
- 4.1.2.6. *Risks and condition*
- 4.1.2.7. *Main indicators*
- 4.1.2.8. *Estimated EC contribution*
- 4.1.2.9. *Co-ordination with Member States and other donors*
- 4.1.2.10. *Indicative timeframe*

4.2. SUPPORT TO MULTI DONOR TRUST FUND FOR MINDANAO

- 4.2.1. *Strategy Context/Justification*
- 4.2.2. *Actions*
 - 4.2.2.1. *Objectives*
 - 4.2.2.2. *Expected results*
 - 4.2.2.3. *Activities*
 - 4.2.2.4. *Implementation*
 - 4.2.2.5. *Cross-cutting issues*
 - 4.2.2.6. *Risks and conditions*
 - 4.2.2.7. *Main indicators*
 - 4.2.2.8. *Estimated EC contribution*
 - 4.2.2.9. *Co-ordination with Member States and other donors*
 - 4.2.2.10. *Indicative timeframe*

5. ANNEXE I

- 5.1. *Summary and objectives for the Country strategy paper*
- 5.2. *Table of Mid-Term Review – Revised NIP 2002-2004*
- 5.3. *Tables of Thematic Budget Lines and Echo projects*
- 5.4. *Donors Matrix*
- 5.5. *Minutes of Meeting with Member States – NIP 2002-2004 and NIP 2005-2006*

ANNEXE II

REVISED NATIONAL INDICATIVE PROGRAMME 2002-2004

Abbreviations

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

1. PREAMBLE

1.1. INTRODUCTION

1.1.1. The ALA Regulation

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

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

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

1.1.2. The Country Strategy Paper 2002-2006

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

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

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

The political situation has not altered considerably since the adoption of the CSP. However, the emergence of global terrorism has further accentuated the insurgency problems the Philippines are experiencing, namely: Muslim separatists in Mindanao and leftist guerrillas in various parts of the country. The government has taken a very firm stance against terrorism and seeks to cooperate with the international community to combat global terrorism. Corruption in both the government and the corporate sector and the resulting impact on law and order remain a major challenge for the government.

Although the Philippine economy has begun to recover from the Asian economic and financial crisis, the investment climate within the country continues to be plagued by external perceptions of the Philippines as a “high risk” destination.

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

1.1.3. The National Indicative Programme 2002-2004

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

Focal Area 1: Assistance to Poorest Sectors of Society

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

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

Focal Area 2: Assistance to Trade and Investment

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

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

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

adopted in 2003 amounted to approximately €5.6 million following the formulation mission.

1.2. THE MID-TERM REVIEW

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

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

1.2.1.1. Political Developments

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

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

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

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

Global terrorist activities also affected the security situation in The Philippines. Possible links with Al Qaeda operatives and others terrorists were investigated. The United Nations Security Council (UNSC) adopted Resolution 1373 which imposed a range of obligations on all States to prevent and fight against terrorism. The EU General Affairs Council emphasised the need for the EU to assist third countries in implementing their obligations under the Resolution 1373.

At the national level, other political - and security - concerns in 2003 included the following: bomb explosions in Davao in March and April; increased bank robbery and kidnapping activities; drug-related lawlessness; the reported assassination of 7 journalists in the country (which is considered to be double the annual average); the army's mutiny in July; and the divisive attempt to impeach the Supreme Court's Chief Justice. Political tensions are expected to intensify in the run-up to the hotly-contested national elections in May 2004. All these events and issues have contributed to a perception of instability in the country, detracting from the GoP's need to address urgent issues that clearly demand immediate attention and implementation of key reforms.

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

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

1.2.1.2. Economic and social situation

1.2.1.2.1. Recent Economic Developments and Issues

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

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

Such problems, together with the negative perceptions engendered by the contagion from the Asian crisis, have in recent years produced a change in the GoP attitude towards

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

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

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

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

1.2.1.2.2. Social developments

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

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

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

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

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

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

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

There is also renewed regional and international co-operation against poverty in "*Brunei, Indonesia, Malaysia, Philippines –East-ASEAN Growth Area*" (BIMP-EAGA). However, these positive developments could be undermined if the jolts to investor confidence witnessed in the recent months, such as kidnappings, bombings, military mutiny, insurgencies, coup rumours, persist. Weak investor confidence associated with perceived

risks has delayed a recovery in investment and potentially limits future growth. The normal procedural difficulties of implementing reforms may also be increased by the political manoeuvrings and complications that are already being generated in the run-up to the 2004 presidential elections.

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

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

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

1.2.2. New EC/EU Policy Objectives and Commitments

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

The MTR observed the following:

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

1.2.3. Results, Performances and Lessons Learned

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

However, based on the assessment of the situation, the MTR and the Delegation suggested modification to the allocation of funds, within the priorities of the NIP 2002-

2004 (the MTR table with the revision of the budget allocation are attached to this document – Annex 5.2).

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

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

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

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

1.2.4. *Quality improvements*

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

1.3. CONCLUSIONS

1.3.1. *CSP's priorities are still valid*

The basis on which the CSP was designed in 2001-2002 is still valid. The Philippines continues to have a relatively high incidence of poverty, especially in Mindanao. The

emergence of global terrorism has had a marked impact on the government's policies and efforts in these areas. Progress has been made in terms of economic recovery since the Asian financial and economic crisis, but it has partly been offset by high population growth and an unfavorable investment climate. The upcoming elections in May 2004 and the eternal "politicking" further exacerbate the situation. Improving good governance continues to be recognized as a prerequisite for sustained economic and social development and remains the underlying principle for the building of effective and efficient government and private sector institutions.

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

1.3.2. Modifications to the NIP 2002 -2004

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

:

- The goal of consolidating rural development activities will no longer be pursued
- Medium to long term interventions to combat terrorism, improve security and stability and to improve good governance will be introduced. An allocation of € 11-13 million is envisaged. During 2003, two projects were approved under Good Governance to improve access to justice and the fight against corruption. Activities focusing on the fight against terrorism and money laundering were initiated through RRM, and a possible follow up under a medium to long term programme is under preparation.
- The SWAP on health will be strengthened for greater impact and in response to the decentralization process. An allocation of €32-34 million is envisaged for this area. However, taking into account the large and complex preparation and time needed for the formulation of a sector wide approach on health, it is envisaged that such a programme should be part of the NIP 2005-2006 instead of the actual revised NIP 2002-2004.
- There should be a larger contribution to TRTA activities. However, following an identification mission in 2003 the initial allocation of €2 million was increased to €3-4 million taking account the various components of the TRTA activities and the identified needs of the agencies involved.

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

The revised NIP 2002-2004 is annexed (Annex II)

1.3.3. *New focus on the priorities*

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

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

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

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

1.4. Consultation

1.4.1. *Coordination with Member States in Manila*

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

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

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

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

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

- Good Governance should be a priority for EU co-operation (fight against corruption and access to justice as priority areas)

- Security and fight against terrorism is a matter of concern where actions should be implemented through border management and terrorist financing/anti money-laundering as priority areas
- Stronger emphasis on a sector wide approach in Health should contribute to the alleviation of basic needs of the poorest and support the *Health Sector Reform Agenda (HSRA)* of the Government
- Full support to the EC intention to contribute to the World Bank-led MRDTF for Mindanao provided appropriate conditions will be established

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

1.4.2 Dialogue with the Government of the Philippines

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

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

The following conclusions were reached:

- -Combating terrorism remains a priority for the GoP
- -Negotiating a peace agreement with the MILF and the NPA remains a top priority for the GoP. Establishing a Multi-Donor Trust Fund for Mindanao is an important component of this process but alternative options to give support to Mindanao should not be ruled out ex-ante.
- -Implementing the Health Sector Reform Agenda continues to be one of the major policy initiatives of the GOP in its efforts to reduce poverty.

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

1.4.3 Consultation with Civil Society

Consultation with civil society is a continuous process with regular meetings with various NGOs. The most recent meeting was held on 26 January 2004. Many civil society representatives continue to express their concerns about human rights violations in general and the existence of death penalty in particular. They also continue to express concern about the effectiveness and impartiality of the judicial system, and the general bad records on the rampant corruption in both public and private sectors. NGO representatives want to strengthen coordination with donors with the aim to jointly press with GoP national and international concerns about corruption, the rule of law and human rights.

NGO representatives continue to urge donors to concentrate on empowerment of individuals, communities, indigenous people, local government units and lobby groups, through capacity building efforts and support to protect the environment. Overall, representatives to this meeting agreed with the proposed approach by the EC and suggested further involvement of civil society in the implementation of these projects.

2. SUMMARY OF THE NIP 2005-2006

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

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

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

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

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

The actions envisaged are based on the following principles recommended by the MTR:

- geographical concentration (Mindanao) and on sector priorities (Health)
- increased cooperation with international agencies
- implementation of new policies (SWAP)
- complementarity with other donors.

The specific objectives of the programmes are:

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

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

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

The key objective of the MRTTF is the reconstruction and development of conflict-affected areas in Mindanao. It aims to identify programmes and projects that can be implemented to realise the mentioned key objective. The sector priority areas that would possibly be covered are:

- (a) Governance and institutions, with the establishment or reinforcement of public administration and training of local government personnel, justice and the rule of law, community recovery, role of civil society,
- (b) Economic status and livelihood requirements, development of agricultural and fisheries sector, environment and natural resource, agrarian reform, ancestral domain, basic socio-economic services
- (c) Social services, development of education, health and sanitation systems, social safeguards
- (d) Infrastructure, construction of roads and bridges, telecommunications, sea ports and airports,
- (e) Finances and private sector, development of financial sector and enhancing the establishment of small and micro-enterprises, financial intermediation.
- (f) Security concern and psycho-social issues with regard to disarmament and demobilisation.

3. Indicative budget NIP 2005-2006 planned

Budgetary Allocations 2005-2006 NIP

Area of Co-operation	Scenario 1	Fall-back scenario
1. Assistance to the poorest sectors of society	€45 M	€45 M
Action 1 : Health sector	€32-34 M	€45 M
Action 2 : Mindanao Donors Trust Fund or support to Health sector if MDTF action cannot be materialised	€1-13 M	
Total Allocations 2005-2006	€45 M	€45 M

4. PRIORITIES AND ACTIONS

4.1. HEALTH SECTOR PROGRAMME FOR HEALTH SECTOR REFORM AGENDA

4.1.1. *Strategy Context/Justification*

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

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

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

From 2000 until 2003, the Government of the Philippines and the donor community worked under a strategy of a “project-based approach” in the framework of the implementation of the HSRA.

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

4.1.2. Actions

4.1.2.1. Objectives

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

The programme purpose is:

- To ensure access to improved quality public health programmes and other essential preventive and curative health services by a larger number of poor people and decreasing the cost for health services for individual families.
- To contribute to the implementation of the government’s Health Sector Reform Agenda by supporting some interventions that are consistent with poverty alleviation strategies, including sound population management.

4.1.2.2. Expected results

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

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

4.1.2.3. Activities

The main activities are:

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

4.1.2.4. Implementation

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

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

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

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

4.1.2.5. Cross-cutting issues

The envisaged intervention is expected to have significant impacts on several development/cross-cutting objectives that address the poverty issue of the country. The poverty situation in the Philippines, although it has improved during the last 14 years, remains problematic as compared with its Southeast Asian neighbors (Thailand, Malaysia and Indonesia). In 2003, more than one-third of the country's population was living below the poverty line. Nearly 16 million Filipinos are considered being core poor (indigents): they have no sufficient incomes for food requirements, and barely any means to access any

basic social services, such as for health and education. Since it is envisaged that the project will be implemented in one or more CS, it should contribute to the development of a more effective, efficient and equitable health system at the local level, which will improve the accessibility of the convergence site population. Civil Society and Community Based Organisation (CBO) will be involved for orienting and supporting integrated local health systems, public health programmes and the social health insurance to benefit the indigents. Planning and management capacities of the central and local governments will be strengthened and co-operation between politicians, administrators and civil society will be enhanced in the provinces supported by EC intervention. This support is thus expected to lead to greater accountability of the public sector and local governments as well as to improve more participatory governance practices. Gender issues are included in relation to population issues, birth control and women's health issues. An evaluation on Gender was done in the Philippines in 2002 and the final assessment will be taken into account as well as the lessons learnt from the just completed EC project on women's health and safe motherhood. The formulation mission is also expected to give more guidance on how to adequately integrate those issues taking into account the evaluation on Gender done in the Philippines in 2002, as well as environmental concerns.

4.1.2.6. Risks and condition

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

The major conditions for approval of a sector programme are:

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

4.1.2.7. Main indicators

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

- Under five mortality rate
- Infant mortality rate
- Proportion of 1 year old children immunized against measles
- HIV prevalence among 15-24 year old pregnant women
- Number of tuberculosis cases detected and proportion -cured under the Directly Observed Treatment short course (D.O. T. S.)
- Budget increase by GOP and/or selected provincial/local governments to health sector (possibly for tranche release if budgetary support is given)

- Number of major donors participating in Sector Programme and amounts of money Allocated/spent by donors of health through the Sector Programme
- Number of poor people covered by health insurance schemes
- Number of hospitals having effective cost recovery scheme
- Proportion of births attended by skilled health personnel
- Type and number of agreements for implementation of HSRA concluded between provincial and municipal actors at convergence site level

4.1.2.8. Estimated EC contribution

The estimated EC contribution is €32 to 34 million

4.1.2.9. Co-ordination with Member States and other donors

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

4.1.2.10. Indicative timeframe

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

4.2. Support to Multi Donor Trust Fund for Mindanao

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

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

Participation in the Trust Fund on Mindanao respond to the priorities that were set out in the Country strategy paper on the Philippines providing support to the most vulnerable sectors of society and in particular on stability and security issues in Mindanao.

Since the establishment of the MRDTF is conditional upon the signing of a peace agreement between the Government and the MILF, it therefore follows that the EC cannot at this stage, assume that contributions to the Donor Trust Fund will in any case materialize. Hence the necessity to look into a “hedging option”, (scenario 2) for alternative use of the funds and to channel the available funds (€1-13 million) into a further increase of the health sector support programme.

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

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

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

4.2.1. Strategy Context/Justification

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

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

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

To pave the way for successful talks, the GoP formally requested the World Bank to explore with other donors the establishment of a MRDTF (Mindanao Reconstruction and Development Trust Fund). Working groups involving the EC and other donors have been established.

Following EC-World Bank discussions both in Manila and Brussels, the EC concluded that it should provide support to the multi-donor trust fund which would clearly reflect its political commitment to the peace process in Mindanao.

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

4.2.2. Actions

4.2.2.1. Objectives

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

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

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

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

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

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

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

4.2.2.2. Expected results

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

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

4.2.2.3. Activities

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

4.2.2.4. Implementation

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

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

4.2.2.5. Cross-cutting issues

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

4.2.2.6. Risks and conditions

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

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

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

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

² In the case of some donors, support may also be given through a financial contribution.

appropriate representation in the project steering committee and through enhanced coordination with Member States and other donors on the Trust Fund.

4.2.2.7. Main indicators

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

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

4.2.2.8. Estimated EC contribution

The estimated contribution is €11 to 13 million.

4.2.2.9. Co-ordination with Member States and other donors

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

4.2.2.10 Indicative timeframe

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

5.1. Summary of the Country Strategy Paper

Objectives of the -Philippines Country Strategy Paper

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

Summary of the Strategy and Priorities:

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

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

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

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

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

Assistance to Trade and Investment (Business climate enhancement – Global economy, European studies (€3 million)

Good Governance (support decentralisation through institutional strengthening at local level, support to fight against corruption, promote enhancement of the judicial and improve corporate governance (€6 million)

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

**PHILIPPINES NATIONAL INDICATIVE PROGRAMME
NIP 2002-2004 – Revised**

Modifications to the 2002-2004 NIP

Area of Co-operation	Initial NIP version	Mid-Term Review	Current version
1. Assistance to the poorest sectors of society	€42 M	€36 M	€0
Action 1: Consolidation of rural development	€20 M	€7 M	
Action 2: Health sector	€22 M	€29 M	
2. Assistance to trade and Investment	€5 M	€5 M	€6 -7 M
Action 1: Business climate enhancement - Global economy (TRTA)	€2 M €1 M	€2 M	€3 -4 M
Action 2: European Studies	€2 M	€3 M	€3 M
Action 3: Improve corporate governance (Small Projects Facility)			
3. Cross cutting issue: Good Governance	€4 M	€10 M	€11-12 M
Actions aiming to support focal point 1:			
• Support decentralization institutional strengthening at local level	€2 M	€2 M	€3 M
• Support fight against corruption	€2 M	€2 M	€3 M
• Promote enhancement of the judicial system		€6 M	€-6 M
• Fight against terrorism			
Total Allocations 2002-2004	€51 M	€51 M	€18M

5.3 Thematic budget lines

NGO co-financing projects (B7-6000)

	Project Name	Duration	EC € Contribution	NGO € Contribution (at least 25%)	European NGO	Target Area
1	Family Education & Community Development Programme in Palawan	July 2000- Dec 2003 (rqst for ext.)	396,949	176,031	Deutsche Welt.	Palawan
2	Candijay Family-Based Integrated Rural Development Project	2001- 2005	223,979	223,979	KKS	Bohol
3	Habitat Community Partnership Program	Aug 2001- July 2004	999,736	412,174	KATE	Tagbilara n, Iligan, Mandalu yong
4	Professional training for Marginalised Youth in the Southern Philippines with Job-Placement Programmes and Establishment of a Polytechnic System.	Jan 2002- Jan 2007	1,047,217	349,073	Jugend Dritte Welt	Cebu, Eastern Samar, Iloilo, Davao Oriental
5	Facilitating Justice for Children	April 2002- April 2005	410,668	136,890	Save the Children Foundation	Cebu, Davao, Aurora, Pagadian
6	Western Batangas Agrarian Reform Communities Support Project	April 2001- April 2004	950,576	333,987	ICCO	Batangas
7	Fair Trade Assistance to Community Enterprises	April 2001- April 2005	766,497	255,498	Traidcraft Exchange	LuzViMi n Regions
8	Project d' Appui Familiales en Grandes Difficultes dans les Bidonvilles de Manille	Sept 2001- Sept 2006	809,333	297,778	ASMAE & Interaide	Manila
9	Capacity Building Program for Civil Society & LGUs to Prevent Child & Woman Trafficking in Visayas & Mindanao Regions.	2003 – 2007	610,612	203,540	KKS	Cebu, Leyte, Bohol, Samar, Davao, Butuan, Cgy de Oro, Zam
10	Expansion of Quality Technical Education in Tarlac through the Institutional Strengthening of Tarlac Training Center	2003 – 2006	363,524	124,097	Hanns Seidel	Pampang a

**TOTAL EC:
6,581,091**

5.3. Internally displaced – uprooted people/refugee projects (B7-302)

	Project Name	Duration	EC € Contribution	NGO € Contribution (at least 10%)	European NGO	Target Area
1	Technical and Organisation Assistance for Civil Society Action of the Displaced and at risk in Mindanao (TOSCADAR)	June 2001 – June 2004	900,000	290,000	VSO	Lanao del Norte/Sur, Bukidnon, Zam del Norte/Sur, Misamis Occidental
2	Assistance to improve the living conditions for the war-affected families in Lanao del Sur and Maguindanao.	Sept 2002- Feb 2004 (extended)	800,000	90,000	ACH	Lanao del Sur & Maguindanao
3	Consolidation of the socio-economic integration process of marginally internally displaced farmers in Lanao del Norte	July 2002- July 2004	1,200,000	220,000	Movimondo	Lanao del Norte
4	Support for the consolidation of the local capacities of the population in conflict affected areas of Lanao del Sur and Maguindanao.	Oct 2003- Sept 2004	600,000	70,000	ACH	Lanao del Sur & Maguindanao
5	Support to the socio-economic integration process of IDPs in the municipalities of Piagapo, Kapai, Marantao, Marawi in Lanao del Sur.	Aug 2003- July 2005	965,952	110,000	Movimondo	Lanao del Sur
6	Supporting and Rehabilitating IDPs and Communities in Southern Philippines.	Jan 2004- July 2005	3,000,000	Spain-.90 M NL - .83 M Aus - 8.40 M NZ - .02 M	UNDP (Int'l.Orgn.)	Cotabato, Davao del Sur, Sarangani, South Cotabato, Sultan Kudarat, Maguindanao, Lanao del Sur, Zam del Sur/Norte, Zam Sibuguey, Sulu, Basilan, Tawi-Tawi, Palawan

**Total EC:
7,465,952**

5.3 Human rights projects (B7-702)

	Project Name	Duration	EC € Contribution	NGO Contribution	Local NGO
1	Strengthening the abolition of the Death Penalty Campaign by information drive.	Dec 2002- Dec 2005	300,000		Philrights

5.3 Tropical forest projects (B7-6200)

	Project Name	Duration	EC € Contribution	NGO € Contribution	European/ Local NGO	Target Area
1	Mt. Isarog Integrated Conservation & Development.	2000-2004	978,547	280,000	CARE Phils.	Bicol
2	Integrating forest conservation with local governance in the Philippines.	2001-2004	1,268,014	320,000	Haribon	Mindoro, Antique, Central Cordillera, Northern Mindanao

**Total EC:
2,246,561**

5.3 Echo projects (B7-210)

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

**Total EC:
850,000**

5.4 DONORS MATRIX

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

Sector / Donor *	EU Member States	Japan	USA	Australia
Health	<p>1/Spain:</p> <ul style="list-style-type: none"> • National Eye Referral Center (12/01-6/04; 2.25M€); • Reproductive Health Project in Maguidanao (1999-2004; 2.62 M€) • Upgrading of Zamboanga City Medical Center and Zamboanga Del Sur Provincial Hospital (2002-2004; 7.16M€). • Soft loan of 12.33 M€for the upgrading of 21 hospitals (loan signed in 2003). <p>2/Germany :</p> <ul style="list-style-type: none"> • KfW projects: (i) Family Planning and HIV/AIDS Prevention Project II (2000-2004; 12.18M€) and phase III (2000-2004; 10.3M€); (ii) Support to the Health Sector Programme; (iii) Cold Chain Equipment Project (12/01-6/04); (iv) Drug provision and procurement (FAMUS II). • GTZ projects: Unified Support to the Philippine Health Sector (2001-2004), 5.75 M€; <p>3/ Belgium contributes to the health sector through the Integrated Agrarian Reform Support Programme II (started September 2003; 1.24 M€).</p> <p>4/ Austria plans to provide a soft loan for the Restoration of the Lung Centre of the Philippines and envisages support to hospital development projects.</p> <p>5/The Netherlands will start supporting the Development of Sub-specialty Capabilities in Heart, Lung, Kidney.</p>	<p>1/Expert Team Dispatch for the Phil Pharmacopeia Project (3/99-2/04; 0.4 M€).</p> <p>2/Measles Control Project (3/03-3/04; 6.17M€).</p> <p>3/Community Health Development Project (10/01-03/04; 0.03M€).</p> <p>4/Through JBIC, Health component of the Catubig Agricultural Advancement Project (up to 2008; 0.04M€).</p> <p>5/Preparation of a Health Sector Reform Project.</p> <p>6/JICA also prepares to start several interventions including health facility construction (outpatient department of Caraga Regional Hospital).</p> <p>7/Construction of the Philippines Blood Transfusion Centre.</p> <p>8/Strengthening of Central Laboratory Facilities.</p> <p>9/Strengthening of the Food and Drug Control Laboratory.</p> <p>10/Technical cooperation on the Third Country Training Programme.</p> <p>11/Establshment of a Bio-Safety Laboratory.</p> <p>12/Provision of Medical Equipment for Barangay Health Centers abd Rural Health Stations.</p>		Agusan del Sur Malaria Control and Prevention Project (6/01-7/04; 2.44 M€).

<p>Economic Cooperation and TRTA</p>	<p>1/ Germany:</p> <ul style="list-style-type: none"> • GTZ: SME promotion programme (o); • Support to International Trade and Foreign Direct Investment (Sector Project, p); • Expansion of Dual Training and Education (EDET) Project, 1996-2008, 7.5 M€ • Credit line for Micro and Small Enterprises (o), • SME Credit Program under appraisal (Feb 2004); • Vocational training support programme (o); <p>2/ ASEM TF 2 (2001- 2005), 32 M€(contributors include EU Member States, EC as well as China and Korea)</p>	<ul style="list-style-type: none"> • JICA training on SPS, 2004 and support to the implementation of the Bureau of Customs' Modernisation Framework (BoC), approx 8 M€ • Cebu Socio-Economic Empowerment and Development (SEED) Project (1999-2004); • Technology Development for Electronic Navigational Chart (2002-2005); 	<p>1/Economic Governance Technical Assistance program (EGTA), 36.7 M€ 1998-2004.</p> <p>2/Revitalizing the Economy and Transforming Governance to Accelerate Sustainable Growth, 2000-2004.</p> <p>3/ Advocating Trade and Investment Liberalisation, 1 M€ 2000-2004</p>	<p>Australia will focus in the regional project primarily on building capacity to implement international agreements (WTO), and integrate effectively into ASEAN and APEC (ref Strategy document 2004-2008, Feb 2004).</p>
<p>Good Governance</p>	<p>1/ Germany (GTZ) :</p> <ul style="list-style-type: none"> • Strengthening Decentralized Development Planning Structures in the Visayas Region (o); • Strengthening of planning capability of NEDA (o); • Support to Local Government Units in Mindanao (p). <p>2/ Sweden: GIS Cookbook for local Government Units (0.33 M€ p)</p>		<p>1/Caseflow Management Pilot Project (Cfmpp) in Pasay City, approx. €4,000.</p> <p>2/ “Chamber to chamber: dialogues between the judiciary and the business sector” (o) approx. €1,000.</p> <p>3/ Jail Decongestion in Manila and Pasay City (o) approx. €17,600,</p> <p>4/ see EGTA above, which has good governance components.</p>	
<p>Small projects and NGO co-financing</p>	<p>1/ Belgium finances NGO projects for above 2 M€per annum (2.4 M€in 2003) (o).</p> <p>2/ Finland finances around 10 micro projects per year for approx 0.2 M€(o).</p> <p>3/ The Netherlands have a large NGO co-financing programme of 9.09 M€ out of which 3.77 M€were committed in 2003 (o).</p> <p>4/The UK have a small project scheme financing annually about 8 projects for a total amount of 0.3 M€</p> <p>5/Cooperacion Espanola and NGOs in the Philippines Programme; (3.63 M€in 2003).</p>	<p>The Embassy is managing a grass-root project scheme, financing mainly NGOs and local governments in social sectors. Individual projects can go up to 100,000 €and there is no specific country allocation. (o&p)</p>		

* O= ongoing and P= planned

NB1: Where available, amounts have been indicated;

NB2 : The following exchange rates have been used: 1 US \$ = 0.8 €= 50 Pesos ; 1 Canadian \$ = 0.6 € 1 Aus \$ = 0.61 € 100 ¥ = 0.75 € 1 UK £ = 1.5 € 1 €= 60 Pesos

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

Sector / Donor*	Canada	World Bank	Asian Development Bank	UN Agencies
Health	Convergence for Poverty Eradication through an improved programming and delivery of integrated and comprehensive reproductive Health care programs and services, 2003-2004, 0.15 M€	1/Women's Health and Safe Motherhood Project II (4/03-3/04; 1.11 M€). 2/ Health component of the Second Social expenditure Project (2002-2004; 9.0 M€). 3/ Early Childhood Development Project, co-funded with ADB (1998-2004; 15.83M€). 4/ The World Bank prepares a Health Sector Development Reform Project (33.3 M€).	1/ Sustaining Health of the Working Age Population (0.48 M co-financed with Japan). 2/ Early Childhood Development Project, co-funded with WB (1998-2004; 33.16M€) 3/ Health component of the Southern Philippines Irrigation Sector Project, with emphasis on schistosomiasis (1999-2005; 1.28M€). 4/ ADB prepares a Health Sector Development Programme (Planned start 2004; 62.5M€)	1/UNFPA : <ul style="list-style-type: none"> • finances a National Advocacy Project (3/00-3/04; 1.15M€). • supports the development of Population and Development Strategies (3/00-3/04; 1.15M€) • provides assistance to DOH for Reproductive Health (3/00-3/05; 0.83M€). 2/UNDP's Building Regional HIV Resilience 9/02-8/06; 1.25M€regionally for the initial period of 2 years).
Economic Cooperation and TRTA	1/ Private Enterprise Accelerated Resource Linkages (PEARL) Project, Phase II, 5.2 M€ 2002-2007. 2/ Business Advisory Project, Phase II (BAP-II), 4.3 M€ 2003-2008. 3/ Socio-economic development through cooperatives in the Ph, 1998-2004, 5 M€ 4/ Promoting Participation in sustainable enterprises, 1997-2004, 4.8 M€ 5/ Planned regional project on TRTA	Rural Finance Project, 1998-2005, 125 M€	Strengthening Export Competitiveness (co-financed by Japan), 0.47M€	.

Good Governance	1/Case Administration Management Information System (CAMIS): Court Administrator capacity building and MIS (o) approx. €183,300. 2/ Justice Reform Initiative Support (JURIS) (o) €3.85 M. 3/ Local Government Support Program (LGSP) Phase II, 1999-2004, 18.6 M€ 4/ Local Governance support programme in the Autonomous Region of Mindanao, 2004-2009, 10.2 M€ 5/ Policy Training and Technical Assistance Facility, Phase 2, 1999-2004, 6 M€	Judicial Reform Support Project (JRSP), €18.25 M (o).	Strengthening the independence and defining the accountability of the judiciary, (o) €1.08 M	1/ UNDP, training of deputized DOJ prosecutors, and of OMB investigators (o & p) 2/ Institutional Strengthening of the Sharia Justice System (o), approximately €20,800
Small projects and NGO co-financing	Canada Fund for Local Initiatives (CFLI), is funding small projects of up to 15 000 €for an annual amount of 0.6 M€(o).			
Multi-sector		ARMM Social Fund aims to foster sustainable development in the Autonomous Region of Muslim Mindanao, amounting to 40.3 M€		UN Multi-Donor Fund Phase 3 began in 1997 aims to implement through a common post-conflict strategy involving the donor community such as Australia and New Zealand, UN Agencies, Spain, EC, among others.

* O= ongoing and P= planned

NB1: Where available, amounts have been indicated;

NB2 : The following exchange rates have been used: 1 US \$ = 0.8 € = 50 Pesos ; 1 Canadian \$ = 0.6 € 1 Aus \$ = 0.61 € 100 ¥ = 0.75 € 1 UK £ = 1.5 € 1 € = 60 Pesos

5.4 Community and Member States' co-operation with the Philippines – As of July 2003

Planned disbursements for 2003 (millions €)

Sectors	Countries																Total
	EC	B	D K N A	D	E L N A	E	F	I R N A	I	L N A	NL	A	P	FI	S	UK	
Education				7.5		0.8	0.4						0.1				
Health	3.5			28.23		12	0.0					33				0.1	
Water supply and sanitation						0.8					2.2						
Government and Civil Society	0.1					0.6									4.4		
Transport and storage							0.0					21					
Communications																	
Banking and financial services	0.2																
Business/Private sector							0.0										
Energy						7						12					
Agriculture, forestry, fishing	8.8	1.24				0.4	0.0		8.7								
Industry, Mining and Construction						0.4										3.7	
Trade and tourism						0.4											
Environmental Protection	2.5					13					3.6			3.6	0.1		
Gender																	
Commodity aid																	
Budget support /SAP																	
Food aid																	
Debt relief																	
Emergency assistance	1.0																
Support to NGOs	1.9	2.4				2.8	0.1							0.1		0.3	
Others							0.2							0.2	0.4	0.4	
Total	18	3,64		35,73		38	0.7		8.7		5.8	66	0.1	0.3	8.4	4.6	

Austria: all loans

Belgium: no 2003 figures available yet

Germany: no figures available before July 2003

**EU Development Counsellors Meeting
21 January 2004
11 a.m. –12.30 p.m.
Royal Netherlands Embassy Conference Room**

Attendance:

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

Not present:

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

EXTRACTS of the agenda concerning NIP preparation:

1. EC National Indicative Programme (NIP):

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

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

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

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

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

Copies of the NIP presentation to the member states are attached to these meetings.

It was proposed that the Sector Wide Approach be made a topic for separate discussion by the DC in the future.

2. Possible issues for future discussion/action:

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

3. Other matters

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

9. The meeting ended at 12.30 p.m.

Actions:

- 1. Attached up-dated schedule of Meetings Irish EU Presidency Meetings (version 28 January 2004). New dates: March 11, 2004, at 9.00 hours; May 13, 2004, at 9.00 hours;**
- 2. Attached up-dated Directory of Development Counsellors, please check information)**
- 3. EC to prepare new format for EU annual report tables.**
- 4. EC to organise special DC on Sector Wide Approach**
- 5. EC to prepare project/programme format for on-going projects/programmes in greater detail than for EU Annual Report. Presidency will send example of Netherlands bilateral programme to EC for review.**