

USAID/Philippines Strategy for 1999-2004:

An Assessment and Redirection

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USAID/PHILIPPINES STRATEGY FOR FY 1999-2004: AN ASSESSMENT AND REDIRECTION

I. THE PHILIPPINE CONTEXT

A. From There to Here

During the 1990s, dramatic movement towards political and economic liberalization helped raise annual economic growth rates in the Philippines to over 5% and reduce poverty by approximately one percentage point per year. USAID supported these advances through comprehensive support programs in the economic and civil society reform areas. Key interventions included macroeconomic policy reform, financial markets institutional reform, trade and investment liberalization, infrastructure finance, business promotion and development, environmental management, civil society development, and local government reform.

Prospects for continued buoyant economic growth seemed strong for the Philippines. However, the country was hit hard during the 1997-98 period by the twin shocks of the prolonged drought (*El Nino/La Nina*) and the continuing regional financial crisis. As a result of the combined effect of these major external events, GDP growth and private investment flattened, imports declined precipitously, the nominal exchange rate fell by approximately 40%, annual inflation hit the 9% level, and unemployment reached double-digit figures. In addition, the financial positions of firms in the corporate sector worsened significantly, and the number of companies that filed for debt relief accelerated dramatically.

Although the country has suffered severely as a result of these shocks, it has not experienced the dramatic decline in real output and exports witnessed in a number of neighboring countries. The country's GDP growth rate, which was -0.5% in 1998, compares favorably with the estimated -15.3% in Indonesia, -8.0% in Thailand, -7.5% in Malaysia, and -7.0% in Korea. The distinguishing characteristics that helped the Philippines weather the crisis exceptionally well include the following:

1. The success that the Philippines has during the last decade in liberalizing trade and diversifying its export markets lessened its vulnerability to declining demand in regional markets.
2. The relatively strong financial regulatory oversight guidelines in place at the onset of the regional crisis (and which were strengthened further in the early stages of the crisis), limited the deterioration of the asset base and financial position of major banking institutions in relation to that experienced in other East Asian countries.
3. The more recent opening of the Philippine capital markets to foreign portfolio investors limited the accumulation of foreign exchange-denominated liabilities in the financial system of the Philippines in relation to that experienced in many neighboring countries.

4. The Philippine democratic political system has made possible a smooth transition of power and continuity of policies and institutions. The election of the Estrada Administration with a broad mandate marks the second time that there has been a peaceful transfer of authority in the country since the revolution of 1986.

At the same time, the regional crisis did reveal serious weaknesses in the financial and corporate governance structures of the major East Asian economies, including the Philippines. It also created severe budgetary pressures that highlighted the social expenditure inequities associated with the current intergovernmental finance system. Moreover, at the onset of the crisis, the Philippines had a significantly larger proportion of its population below or at the poverty line than did most other middle-income East Asian countries (approximately one-third).

Thus, although the country was not as hard hit by the crisis as some of its neighbors, the crisis has the potential to have a harsher absolute impact on the incidence of poverty in the Philippines than in many neighboring countries. This is a result of the less favorable socio-economic profile of the population of the Philippines and its greater vulnerability to the impact of declining short-term economic growth performance on per capita income and consumption levels. The country's high population growth rate (2.32%) exacerbates poverty problems and contributes to the current negative growth in GDP and environmental degradation. The problems are particularly severe among urban populations that have been hit hard by the AFC. *El Nino* drought further contributed to the swelling numbers of the jobless streaming to the urban centers of the country. Cuts in national and local budgets have also adversely affected the delivery of basic health care services, especially to the poor.

The socio-economic pressures associated with weakening economic conditions in the Philippines are being played out against a complex political backdrop. The newly elected government of President Joseph Estrada, who assumed office this past summer, has been moving through the predictably complex transition process associated with any new administration. Through its first six months in office, the Estrada Government seemed to be characterized by shifting policy priorities and a lack of a unified policy and institutional reform focus. However, as the Government of the Philippines (GOP) prepared for this year's Consultative Group (CG) Meetings in Tokyo (March 1999), core policy reform priorities and a coherent vision for a medium term development plan progressed at an accelerated pace.

At the CG, the GOP reiterated its commitment to accelerating progress in reducing poverty and promoting agricultural sector recovery and expansion. (The agricultural sector declined by approximately 6% in 1998, the largest fall in three decades. It contributes approximately 25% of GDP, accounts for about 40% of total employment and products produced by the sector provide a significant share of annual export revenues.)

The Medium-Term Philippine Development Plan presented by the government at the CG calls for a strong focus on expansion of infrastructure investment and strengthening of business development and market linkage efforts in rural areas, based on recognition that: 1) renewed agricultural growth will spur downstream manufacturing and service sector linkages, which will

accelerate overall economic recovery; and 2) poverty remains disproportionately concentrated in rural areas in the Philippines.

The GOP also asserted its ongoing commitments to:

- Stable macroeconomic policies (including a major emphasis on enhanced revenue collection and tax administration reform).
- Continued progress on trade and investment liberalization and economic integration.
- Continued restructuring of the power sector and the eventual privatization of the National Power Corporation to level the playing field, generate efficiencies, and develop indigenous and environmentally friendly energy sources.
- Accelerated progress in key economic governance areas (including reforms in the financial, corporate governance, and the public management areas) which clearly require strengthening in the wake of the AFC.
- Decentralization of decision-making authority and increased local resource mobilization to address local government unit (LGU) priorities, including integrated environmental and community-based resource management.
- Decentralization of health care services targeted at the poor and rapid expansion of private sector delivery of health and family planning services to the non-poor.

Despite these commitments, tensions and inconsistencies could emerge between the GOP's short-term poverty reduction goals and its plan to continue economic liberalization. A recent Executive Order that increased tariff rates for a spectrum of imports, although consistent with WTO and ASEAN guidelines and underscored by GOP officials as a temporary measure, is clearly an unwelcome policy signal. Likewise, the GOP's recent decision to extend the duration of the agrarian reform program and to re-endorse a previously dormant policy of parcelizing all land plots between 3 and 24 hectares, is again a worrisome sign. This underscores the importance of implementing support programs that buttress the understanding of, and support for, core economic policy and institutional reforms that both promote liberalization and improve earnings and social service access opportunities for vulnerable social groups.

B. Other Challenges

Although the AFC has been the primary consideration motivating the decision to modify our strategy, other considerations played a role as well. These other considerations include:

- Election of a New Philippine President. The new Estrada Administration assumed office in 1998 with a much more populist development agenda than the previous Ramos administration. As a result of the changes in key Government leaders, and the opportunity

presented by their receptivity to change, the Mission responded quickly to accelerate implementation of family planning and environmental programs, and to introduced innovative approaches to address the issues of corruption, government revenue shortages, weaknesses in the justice system, and the need to combat infectious diseases.

- The Influence of *El Nino* and *La Nina*. *El Nino* and *La Nina* contributed to a 6.6% drop in agricultural production, the worst in 30 years, which has had a major impact on economic growth. The events have helped to highlight fundamental weaknesses in the agricultural sector and have created new opportunities for accelerating agricultural reform.
- Lack of Significant Progress in Achieving the Mission's Family Planning SO. The Mission's family planning SO has to date supported a predominately public sector program. Despite \$20 million in annual USAID funding alone, modern contraceptive use, which is already low at 28%, is declining rather than increasing. Unless this trend is reversed and performance accelerated, SO 3 will not meet its stated goals. Both GOP and USAID have determined that improved program performance and sustainability can be achieved only through greater private sector role and participation in the program. As a result, the Mission has determined that it is necessary to modify its strategy to increase the private sector role, while encouraging the GOP to focus its scarce resources on addressing the needs of the poor.
- New Information about Biodiversity. Findings from recent studies suggest that the Philippines is the world's most urgent conservation priority. If attention is not paid to resolving this problem immediately, it is possible that the country will experience "the first major extinction spasm of the twenty-first century."
- Maturation of Models for Effective Governance. Field activities carried out in partnership with selected local governments have led to the development of new contextually-sensitive models for financial management, participatory planning, environmental management and service delivery suitable for emulation across local government units (LGUs) throughout the Philippines. This situation has resulted in a significant new demand for SO 6 LGU capacity-building activities.

II. STRATEGY MODIFICATION PROCESS

Under the Agency's performance planning, monitoring and reporting system, a mid-course strategic implementation review should take place at least once every three years. The ADS requires that changes at the strategic objective level be based on compelling evidence, such as dramatic changes in country or other conditions external to the program, unsatisfactory progress toward approved strategic objectives or other evidence that these objectives will not be met, achievement of a strategic objective on an accelerated basis, or a major shift in Agency policies or resources.

The decision to develop a modified strategy was the product of an increasing awareness that rapid changes in the Mission's operating environment were challenging many of the assumptions

underpinning the current Country Strategic Plan. In response, the Mission initially engaged in extensive analysis and consultations with partners and customers to develop a better understanding of the causes and implications of the observed changes. In addition, the Mission commissioned a nationwide survey and worked with focus groups to assess how it might best adapt its development priorities to the new environment.

As the outlines of the needed strategy modifications became clearer, Mission staff began to meet frequently with the Government of the Philippines and other donors (the World Bank and Asian Development were also reassessing their development strategies) to maximize the possibilities for collaboration. These activities were carried out at both the Mission and SO level. Simultaneously, the Mission reviewed the effectiveness of its assistance activities, undertaking evaluations in several areas, including population, health, environment, local governance and civil society. It also initiated studies to explore potential new activities to help the Mission achieve results more effectively, such as infectious disease prevention and use of the development credit authority.

Thus, the modified strategy is the product of a process that led to a significantly improved Mission-wide and SO-level understanding of the extensive changes that have occurred in the Mission's operating environment since the last Country Strategic Plan was approved.

III. CONTRIBUTION TO USAID, U.S. FOREIGN POLICY AND GOP OBJECTIVES

The modified strategy supports five Agency goals: 1) promotion of broad-based economic growth and agricultural development; 2) enhancement of democracy and good governance; 3) stabilization of world population and protection of human health; 4) sustainable protection of the world's environment; and 5) reduction of human suffering and loss of life and re-establishment of conditions conducive to political and/or economic development.

The modified strategy will also serve as an important instrument to advance U.S. national interests in the Philippines, as defined by the Philippines Mission Performance Plan. The modified strategy will:

- promote economic growth, foster GOP support of an open trade and investment regime and provide new opportunities for American businesses;
- promote more equitable growth by assisting the poor and other marginalized groups;
- strengthen Philippine democracy, improve observance of human rights, and support efforts to establish the Philippines as the region's democracy and human rights hub;
- foster GOP support for U.S. environmental objectives in international fora;
- help reduce environmental degradation, and promote biodiversity through improved

watershed management and the conservation of natural resources;

- help reduce fertility and population growth; and
- promote American humanitarian values by alleviating suffering during crises and by assisting those affected by social marginalization.

USAID's modified strategy strongly supports the GOP's 1999-2004 Medium-Term Development Plan which stresses: alleviating poverty; modernizing agriculture; improving the delivery of basic social development services; developing infrastructure, particularly in the rural areas; pursuing privatization, deregulation, liberalization and globalization; maintaining economic stability; and reforming governance.

IV. MAJOR FEATURES OF THE MODIFIED STRATEGY

These political and economic changes form the backdrop against which USAID/Philippines proposes to modify its country strategic plan. The Mission's current strategy is focused on support for trade and investment liberalization and regulatory reform, accelerated economic development in Mindanao (the poorest region in the Philippines, and one that possesses a significant Muslim population), improved family planning policies and practices, economically efficient and environmentally-friendly power generation, sustainable environmental management policies and practices, and broadened civic participation in local governance.

The modified strategy proposes to continue these core elements of the USAID/Philippines support program. However, it also proposes an intensification of key elements of the strategy that address:

1. Policy and institutional distortions that contributed to financial market vulnerability.
2. Major targets of opportunity for policy and institutional reform created in the wake of crisis, e.g., corruption and transparency.
3. Decentralization and LGU resource mobilization to promote natural resource management, especially through integrated watershed management.
4. Government health care reform to improve program effectiveness and sustainability through decentralization and greater reliance on the private sector for expanded family planning services to those who can afford to pay.

Our goal is to facilitate implementation of an assistance program that will speed the recovery of the Philippine economy from the spillover effects of the crisis; lessen its vulnerability to future financial shocks; and improve the public resource management process in a manner which tightens the cost-efficiency and targeting of major public expenditure programs.

Our modified program will place increased emphasis on combating urban problems, particularly those problems exacerbated by the impact of the AFC. Unemployment in the Philippines increased from an average of 8.6% in 1997 to 10.1% in 1998, largely as a result of increased unemployment in urban areas. As a result, USAID, in collaboration with other donors, has determined that ongoing activities could be expanded or modified to address increased urban unemployment and poverty through the following actions:

1. We will work to ensure adequate financing for micro, small and medium enterprises as well as facilitating private sector investment.
2. We will work with the GOP to reduce its vulnerability to future financial shocks and improve its ability to manage public resources.
3. We will expand activities with municipal and provincial governments to implement more cost-effective systems for tax collection, revenue generation, and infrastructure financing (Build-Operate-Transfer, Development Credit Authority, etc.).
4. We will increase support for policy analysis and constituency development for energy sector privatization to help reduce business operational costs, lower electricity rates, stimulate expansion, and increase employment opportunities.
5. We will provide expertise in the areas of telecommunications, electronic commerce, and urban transport to facilitate business development, increase trade and investment, and expand employment opportunities.
6. We will help meet the needs of the urban population through our new private sector family planning initiative. One or more comprehensive service delivery centers will be established in each of the 30 major cities and towns in the Philippines over the next 2-3 years.
7. We will introduce surveillance and education interventions for highly infectious diseases such as dengue, tuberculosis, and malaria. (The first two of these three are more prevalent in urban areas.)
8. We will intensify work with the leagues of governors, vice governors, mayors, barangay captains, and leagues to replicate best practices in local government, e.g., investment promotion, health service delivery, and environmental management.
9. We will continue assistance to civil society coalitions advocating for marginalized groups such as the urban poor, street vendors and informal sector workers, as well as those living in "high growth areas."
10. We will promote market-based investments to help industry reduce pollution (while increasing profitability) and manage solid waste.
11. We will help urban business interests to combat government corruption and establish

partnerships with different institutions to reform government procurement and other processes.

12. We will integrate environment, economic growth and democracy strategic objectives through shared common sub-results and contractual mechanisms to encourage contractors and grantees to collaborate.
13. We will shift from donor coordination to donor collaboration, to achieve a common set of results.

The Mission is continuing to direct a portion of our resources to Mindanao, which comprises one third of the country's land mass, contains a quarter of the population, and is inhabited by many of the country's impoverished population. Recognizing that economic growth resources have diminished drastically, we concluded that we could maximize our impact by collaborating with other donors to address national policy issues and focusing our private sector promotion activities on a single geographic area. Most of our intensified investment promotion and micro-finance development activities are concentrated in major urban areas of Mindanao.

Our in-depth understanding of a specific geographic area is fed back into our policy reform activities at the national level. We have demonstrated that Mindanao is the area of the Philippines where we could obtain an extraordinary payoff from the investment of our resources and learn important lessons relevant to national policy. It continues to be the area with both the greatest need and the greatest opportunity for economic progress.

Mindanao was severely affected by the AFC, *El Nino* and *La Nina*. The resulting economic downturn and the associated shortfall in budgetary resources allocated to Mindanao have heightened tensions in the Muslim areas of Mindanao, as reflected in a recent upswing in banditry and kidnapping activities. In response to these problems, as well as our desire to overcome decades of neglect by the National Government and private sector, we are adding conflict prevention efforts to help Mindanao expand its production of manufactured and processed goods, develop its physical infrastructure, and catch up to the rest of the country.

V. MANAGEMENT GOALS

Increased Impact. The revised strategy aims for higher and more cost-effective results, through both continuity and change. We are reinforcing the approaches that are achieving results. We have identified our successful innovations and are building on them. We are adapting our approaches to take into account lessons learned during the last four years of strategy implementation. Where activities contributed negligibly to our results, we are dropping them from our portfolio and moving in new directions.

Nationwide Results. Our goal is to achieve nation-wide results, based on successful pilot activities and national policy reforms. Strategy modifications will enable us to roll out models of environment, health, and municipal management to all receptive local government units. Our work at the national government levels in these areas, as well as in economic policy, will facilitate the

rollout process.

Integration and Synergy. To assure maximum impact, we have reinforced the areas of program integration and synergy. The health, environment, and economic growth strategic objectives now share common sub-results with the democracy strategic objective. We are developing contractual mechanisms and opportunities for our contractors and grantees to collaborate, both nationally and in specific geographic areas.

Collaboration with GOP and Other Donors. We are not satisfied with simply coordinating our assistance. Reduced resources are forcing donors to collaborate, i.e., work together for a common set of results. The following are examples of collaborative approaches already adopted by USAID: 1) we have supplied much of the engineering work for the World Bank's small infrastructure activities in Mindanao; 2) we worked with the ADB to jointly design a capital markets activity; 3) we also worked closely with the ADB to insure approval of their \$300 million power sector loan; 4) under the umbrella of the Common Agenda we jointly financed HIV/AIDS prevention activities with the Japanese; and 5) we are working with the UNDP and the Land Bank of the Philippines to encourage increased private-sector lending for renewable energy.

Pipeline Management. The Mission has rigorously reviewed its expenditure and pipelines levels. To ensure compliance with the 12-months forward funding guidelines, we will conduct budget reviews on a quarterly basis. We expect expenditures to increase dramatically as successful program demonstration interventions are "rolled out" nationwide to receptive local governments at the provincial, municipal, city, and barangay levels. Length of contracts will not drive funding request and expenditure planning levels, but rather, the requirements to achieve greatly expanded impact using effective and efficient delivery mechanisms to maximum effect.

VI. RESOURCE REQUIREMENTS

Based upon discussions with the ANE Bureau, the planned DA funding level for the modified strategy is \$40 million per year. However, the availability of pipeline as well as AERA funds and ESF will permit expenditure levels in the range of \$70 million per year, at least through FY 2001. (At the end of FY 2001, however, we will no longer have sufficient funding to cover projected 12 months of expenditures.) The Mission estimates these expenditure levels, combined with resources of approximately \$50 million per year in FY 2002, approximately \$40 million per year in 2003 and \$30 million in 2004 will permit the goals of the modified strategy to be met. (See the first table below.)

The SO level resource table (see the second table below) shows a sharp increase in SO 1's resource requirements in FY 2000 followed by fairly level requirements until the end of the SO in FY 2003. Both SO 1 and SO 2 resource requirements peak in FY 2000 – not surprising given their heavy focus on the Asian Financial Crisis. SO 3 resource requirements remain fairly level at about \$20 million per year over the full life of the strategy because of the new private sector initiative being developed, while the requirements of the HIV/infectious disease SpO decline

from approximately \$4 million to \$2 million after FY 2000. SO4 requirements gradually rise over the life of the strategy, peaking at \$10 million in 2003. SO 5's requirements remain in the \$4-5 million range until the SO ends in FY 2002 while SO 6's requirements peak at \$8.3 million in FY 2000 and then decline until the end of SO in FY 2002. The increase in resource requirements in out-years, which occurs at different points at different SOs, is a reflection of the exhaustion of pipeline funds rather than a sharp increase in new program activities.

USAID/PHILIPPINES STRATEGY FOR FY 1999-2004
Funding Source Budget (Amounts in \$000)

Funding Source	Resource Requirements					
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Development Assistance	27,150	40,000	40,000	40,000	40,000	31,500
AERA	6,500	12,300	6,000	6,000	-	-
Economic Support Funds	-	5,000	5,000	5,000	3,500	-
TOTAL	33,650	57,300	51,000	51,000	43,500	31,500

USAID/PHILIPPINES STRATEGY FOR FY 1999-2004
Funding By Strategic Objective (Amounts in \$000)

Strategic Objective	Resource Requirements					
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
SO1 – Mindanao	2,250	8,500	6,500	6,500	8,000	
DA	2,250	5,000	3,000	3,000	4,500	
ESF	-	3,500	3,500	3,500	3,500	
SO2 - National Systems	3,500	7,500	5,000	4,200		
DA	-	-	2,000	1,200		
AERA	3,500	7,500	3,000	3,000		
SO3 - Population/MCH	20,450	20,050	20,400	17,500	23,000	21,000
DA	18,500	16,900	18,400	15,500	23,000	21,000
AERA	1,950	3,150	2,000	2,000	-	-
SO4 – Environment	-	5,000	6,000	9,500	10,000	8,000
DA	-	5,000	6,000	9,500	10,000	8,000
SO5 - Climate Change	-	4,000	4,750	4,700		
DA	-	4,000	4,750	4,700		
SO6 – Democracy	2,800	8,300	6,450	6,600		
DA	2,000	5,500	3,950	4,100		
AERA	800	1,300	1,000	1,000		
ESF	-	1,500	1,500	1,500		
SpO1 - HIV/AIDS	4,650	3,950	1,900	2,000	2,500	2,500
DA	4,400	3,600	1,900	2,000	2,500	2,500
AERA	250	350	-	-	-	-
TOTAL	33,650	57,300	51,000	51,000	43,500	31,500

VII. STRATEGIC OBJECTIVE MODIFICATIONS

The discussion that follows briefly reviews proposed modifications of Mission SO results and activities, the rationale for these changes and the linkages that have been established between each individual SO and the activities of other donors and other SOs. (An overview of current activities under each SO can be found in the Mission’s R4 document.)

- **Strategic Objective 1: Accelerate the Economic Transformation of Mindanao.**

SO Modifications: The SO statement above will remain unchanged. However, the Mission has decided to consolidate the principal activities focused on Mindanao's Muslim community into a new intermediate result (IR 3): *"Increased Economic Progress of Religious and Cultural Minorities in Mindanao."* This change reflects the importance of this objective and the increasing amount of resources devoted to it. Activities under IR 3 will focus on: 1) assisting former Muslim separatist combatants to make the transition from guerrilla fighters to productive farmers; and 2) attracting large "demonstration" investments into the Muslim areas of Mindanao.

Other new or enhanced activities that will be undertaken under SO 1 include creating a number of new private investment funds focusing on Mindanao and helping to expand the number of banks in Mindanao that are providing services to microenterprises.

Rationale for the Modifications: The conclusion of a peace agreement between the GOP and the MNLF in late 1996 allowed USAID to expand its business development activities beyond the area originally envisioned under the current strategy. The new IR will provide a framework for the development of new activities in the Muslim areas. In addition, SO 1 programs are being altered because two critical SO assumptions have not been borne out: sustained economic growth at the national level and a "normal" level of natural disasters. As a result of the AFC and the *El Nino*-associated drought and crop failures, the SO Team is behind schedule in achieving its performance-related levels of investment and employment. While the difficulties are affecting all of Mindanao, the Muslim areas of Mindanao have been particularly hard hit, leading to an upsurge in banditry among some former MNLF combatants, and to increased support for Muslim separatist organizations. The SO Team believes these events warrant an increased programmatic emphasis on the Muslim areas of Mindanao.

Collaboration with Other Donors and Integration with Other SOs. Following USAID's lead, all of the major donors are now focusing on Mindanao. Japan, the World Bank, and the ADB direct a disproportionate share of their infrastructure assistance to Mindanao and all coordinate with USAID in selecting infrastructure projects for financing. Cooperation is more substantial in the case of the World Bank's small infrastructure fund where USAID supplies much of the engineering design work. (This activity is focused on the Muslim community in Mindanao.) In addition the Mission has assisted in programming the resources of the United Kingdom and New Zealand in Mindanao. It also works closely with the "Mindanao Working Group," chaired by the UNDP, which coordinates and monitors assistance to former combatants. SO 1 collaborates with SO 2 on agriculture, SO 3 on family planning, SO 4 on coastal and forest management and SO 6 on local government capacity building.

- **Strategic Objective 2: A More Stable and Competitive Economy.**

SO Modifications: SO 2 will increase emphasis on improving economic governance and stabilizing financial institutions. SO 2 itself will change from *"Improved National Systems for Trade and Investment"* to *"A More Stable and Competitive Economy."* A new intermediate result, *"Economic Governance Improved,"* will be added to support the crosscutting goals of

AERA. Two existing intermediate results, “*Fiscal Resource Mobilization and Allocation Improved*” and “*Financial Market Stability and Competitiveness Improved*,” will be merged into a single intermediate result, “*Financial Institutions are Stabilized and Deepened*,” to align the program more closely with the objectives of AERA. Lastly, the current intermediate result “*Trade and Investment Liberalized*” will be rephrased as “*Trade and Investment More Competitive and Dynamic*.” Because of the pause in economic growth caused by the AFC and *El Nino*, SO 2 will require an additional year to achieve its planned results and will be extended through FY 2002. The modified SO 2 will:

- Encourage liberalization of trade and investment by promoting reforms in the power, telecommunications, and shipping and aviation sectors as well as in electronic commerce and intellectual property rights. SO activities will also encourage new private infrastructure investments, help the GOP to reduce import tariffs, implement WTO-standard customs procedures, institute higher labor standards in garment manufacturing, and liberalize agricultural markets. SO 2 will also support Y2K contingency planning in the key area of aviation.
- Improve financial markets’ stability and competitiveness by helping to: 1) improve banking supervision; 2) strengthen debt-resolution policies and procedures; 3) solidify regulation and management of the stock exchange; 4) develop new markets for debt and mutual funds, 5) reduce the risks associated with private pensions, social security and housing finance; 6) provide institutional support for the Bureau of Internal Revenue and the Bureau of the Customs; 7) improve revenue-sharing procedures under the Local Government Code; and 8) support new policies that contribute to decentralization and responsive governance. USAID will encourage increased transparency in all of these activities.
- Improve economic governance by collaborating with SO 6 on the development of a set of anti-corruption activities to make both GOP procurement and the judiciary more transparent and efficient.
- Use AERA funds to strengthen banking and financial-sector supervision, corporate governance, debt-resolution policy, government procurement, and the judiciary’s role in economic policy making and implementation.

Rationale for the Modifications: Recent events have illustrated the Philippines’ vulnerability to financial instability. Given that new financial turmoil could emerge at any time, this vulnerability needs to be addressed urgently. Financial vulnerabilities are closely tied to continuing economic governance issues, which therefore also require more attention. Also, in view of the resurgence of protectionist measures since the onset of the financial crisis, the SO will continue to focus on competition and openness as the key policy direction needed to generate growth, create jobs, and reduce poverty.

Collaboration with Other Donors and Integration with Other SOs. SO 2 is well integrated with the activities of SO 1 on agriculture, small credit policy, and infrastructure issues, SO 3 on child

survival issues, SO 5 on the energy sector, and SO 6 on intergovernmental finance and anticorruption activities. To achieve SO 2, USAID is collaborating with other U.S. government agencies and is strengthening its ties to the American Chamber of Commerce in four key areas: infrastructure, agribusiness, telecommunications and energy. SO 2's technical assistance program is a crucial complement to capital assistance and policy-based loans from the IMF, the World Bank, and the ADB, which are heavily co-financed by the Government of Japan.

- **Strategic Objective 3: Reduced Fertility Rate and Improved Maternal and Child Health.**

SO Modifications: The population of the Philippines will double by 2030 at current rates of growth. Because high fertility is largely responsible for the high population growth rate, the Mission will maintain its current strategic objective to reduce the fertility rate and improve maternal and child health.

The modified strategy will address the major constraints that have stymied family planning and maternal and child health (FP/MCH) service delivery to date. Even though the GOP has been quite successful in making contraceptives widely available in the Philippines, it has not been able to aggressively promote FP because of the Church claim that the Government is forcing FP on unwilling clients. A private-sector family planning program where the majority of clients pay for their services is, by definition, a program that is voluntary. The experience of the PROFAMILIA family planning model, which SO 3 plans to help adapt and introduce into the Philippines, demonstrates that a private-sector family planning organization can successfully address objections by religious authorities and increase modern contraceptive use. High-quality promotion and counseling, unavailable under government-sponsored FP programs, will be provided under the new approach, which will address client fears about contraceptive side-effects, one of the major reasons for failing to use or discontinuing to use FP methods in the Philippines.

Under the modified strategy, SO 3 will be extended from FY 2001 to FY 2004. Two IRs will be retained under the modified strategy and one will be dropped:

- IR 1: *“Increased Public-Sector Provision of FP and MCH Services Targeted at the Poor”* will be continued. Under the modified strategy, the successful Local Government Unit Performance Program (LPP), which provides performance-based grants and technical assistance to local governments to strengthen their FP/MCH service delivery, will focus its public-sector technical assistance on improving FP/MCH service delivery for the one-third of the population that is poor. By FY 2004, USAID funding for LPP will cease, with the Department of Health (DoH) and local governments assuming the management and financial responsibility of the program.
- The current IR 2, which focuses on the improvement of national service systems, will be dropped given that the planning and implementation of the FP/MCH program now largely

occurs at the local rather than the national government level. The current IR 3 will be relabeled IR 2.

- The newly labeled IR 2: “*Increased Private-Sector Provision of Contraceptives and FP/MCH Services,*” will be continued but program activities will be redirected toward establishing a network of private-sector facilities based on the successful PROFAMILIA experience in Colombia and other Latin American countries. This network will provide integrated, high-quality FP/MCH services to those who can afford to pay for these services. Its clientele will be drawn from that significant segment of the population that can pay for FP/MCH products and services, although perhaps not at full market price. Its emphasis on quality of care and demand generation through marketing campaigns will have a major impact on program performance and sustainability.

The PROFAMILIA model has been chosen as the appropriate model for the Philippines based upon visits and discussions in Colombia and Mexico by three successive teams of high-ranking GOP officials (including Cabinet Secretaries and Congressional leaders) and after consideration of other family planning models in the Asia Near East region. President Estrada and his administration are committed to using public resources to address the family planning needs of the genuinely poor while allowing the private sector to expand its services to those whom can afford to pay. (Consumer studies have demonstrated that two-thirds of the family planning clients now receiving free family planning services are prepared to pay for them.) Nonetheless, the success of PROFAMILIA program in the Philippines will ultimately depend upon parallel reforms in health insurance to include contraceptive products and services as well as customs reforms to permit contraceptives to be imported duty-free. (Both issues are being addressed by the GOP and USAID.)

Rationale for the Modifications: The SO is being modified for five reasons:

- The Asian Financial Crisis has triggered a 25% reduction in the national budget and a 10% reduction in revenue transfers to local government. Declining government resources argue for a strategy that channels scarce public-sector resources to meet the needs of the most vulnerable populations.
- Findings from the 1998 Demographic and Health Survey show that: 1) the Modern Method Contraceptive Prevalence Rate is declining rather than increasing and is only half the rate needed to attain the Government goal of replacement level fertility; 2) current fertility is higher than the fertility desired by Filipino women; and 3) key maternal and child health rates are below GOP goals and international standards. These discouraging findings call for a fresh approach to deal with the Philippine’s serious demographic and health situation.
- Three program assessments in 1998 found that SO 3’s local government public-sector technical assistance program (IR 1) was successful and should be expanded and that its private-sector program (IR 3) should be continued and expanded, but in modified form. The

assessments also found that the national service systems improvement program (IR 2) should be dropped.

- The election of President Estrada in July 1998 brought new and dynamic leadership to the Department of Health. The Administration's new DoH Family Health Framework supports: 1) decentralized FP/MCH planning and service delivery; 2) integrated FP and health service delivery; and 3) a market-segmented approach that directs public-sector resources to the poor and private-sector resources to the non-poor. This framework has been endorsed by the multilateral and bilateral donor agencies and forms the basis for the modified SO 3 strategy.
- USAID's Well-Family Midwife Clinic (WFMC) Program clearly shows that a private-sector business-oriented approach can be highly successful in the Philippines. The National Economic Development Authority and the Department of Health strongly endorse the creation of a nationwide system of private-sector clinics and UNFPA and other donors have already pledged funding support for this new approach.

Collaboration with Other Donors and Integration with Other SOs. The LPP activities will be undertaken collaboratively with the governance and local democracy activities of SO 6. Under the AERA activity, SO 3 will work in league with SO 2 and SO 6, in strengthening the Philippine social "safety net." These activities will include Vitamin A capsule distribution and integrated management of childhood illnesses. USAID is by far the major donor in family planning, and it will work collaboratively with a host of donors in the health sector, including UNFPA, World Bank, Australian AID, Asian Development Bank, European Union and Germany on this issue.

- **SpO 1: Threat of HIV/AIDS and Other Selected Infectious Diseases is Reduced.**

SpO Modifications. The SpO statement is being revised to include support for selected infectious diseases such as malaria, dengue and tuberculosis, in addition to existing support for HIV/AIDS: The revised SpO statement is as follows: "*Threat of HIV/AIDS and Other Selected Infectious Diseases is Reduced.*" "*Rapid Increase of HIV/AIDS Prevented,*" was previously the SpO statement, but it is now an IR. The previous IR: "*Adoption of STD/HIV/AIDS Prevention Practices by Target Groups Increased,*" has become a sub-result. A second IR has been added: "Capacity to Identify and Reduce the Threat of Leading Infectious Diseases Strengthened."

Current SpO activities consist of NGO-implemented information, education and communication (IEC) programs targeted at selected high-risk groups. Under the modified SpO, greater attention will be directed at helping local governments generate revenue to finance these programs. The objective of the new infectious disease activities will be to reduce the burden of selected diseases by establishing effective links between surveillance systems and local decision-makers. SpO activities will concentrate on the most populous provinces and urban areas in the country, and will include: 1) support for strengthened local surveillance systems; 2) training and technical assistance for health providers and epidemiologists; 3) supervisory and quality assurance activities; 4) performance assessments of surveillance and health services at local and regional

levels; and 5) identification of key research problems needed to improve local government response to infectious diseases.

The modified strategy will be implemented during the FY 1999-2004 period. At the end of USAID assistance in 2004, the SpO Team expects that there will be an effective and efficient education and surveillance systems established and functioning throughout the Philippines to track and prevent HIV/AIDS and other leading infectious diseases.

Rationale for Modification: While there is no imminent threat of an HIV/AIDS epidemic occurring in the Philippines, much needs to be done to institutionalize the AIDS surveillance and education program of the GOP. An extension of the program from FY 2001 to FY 2004 will enable USAID to implement follow-on activities that will ensure the program's sustainability after funding ends. In addition, infectious diseases continue to be leading causes of morbidity and mortality in the Philippines. Malaria, dengue, and tuberculosis have reached epidemic proportions. Support for the control and prevention of these epidemics will complement and supplement existing HIV/AIDS education and surveillance activities. The new infectious disease activities are also responsive to a U.S. congressional directive on infectious diseases.

Collaboration with Other Donors and Integration with Other SOs. USAID collaborates closely with other donors and the GOP on HIV/AIDS and sexually transmitted disease prevention. USAID finances and provides technical assistance to the HIV sentinel surveillance system, while Japan provides laboratory, office and communications equipment. (The US-Japan Common Agenda has been an important forum for this collaboration.) STD drugs, funded by Japan and the Netherlands, complement USAID-supported training activities on STD syndromic case management. USAID's focus on HIV/AIDS education for high-risk groups is complemented by support from other donors, such as AUSAID, the EU and JICA for educational activities directed towards the general population.

- **Strategic Objective 4: Improved Environmental Management for Long-Term Sustainability.**

SO Modifications: The SO language will change from *“Enhanced Management of Renewable Natural Resources”* to *“Improved Environmental Management for Long-Term Sustainability.”* Two new closely linked intermediate results will be created that emphasize careful attention to sustainability: IR 1, *“New National Framework Adopted for Improved Environmental Management,”* and IR 2, *“Improved Environmental Management Implemented in Target Areas.”* To achieve IR 1, USAID will promote such activities as integrated resource planning between different stakeholder groups and market-based instruments to improve resource allocation. The SO Team will also help with the restructuring and reorganization of the Department of Environment and Natural Resources, including the creation of an office for watershed management staffed and funded by the National Government. The two new IRs will replace the current three IRs and incorporate elements of the current programs in coastal, forestry and industrial pollution.

To achieve IR 2, the SO Team will help local governments enact ordinances to support integrated resource management, assign staff to deal specifically with integrated resource management, and provide resources to address these issues. The Team will also facilitate the development and implementation of specific measures in local settings, such as market-based instruments in targeted watersheds to improve water resource use between upland forests and lowland coasts, as well as improved practices for coastal resources management.

These changes are the product of extensive consultations with partners and customers and reflect the priorities of the Estrada Administration. They will result in the following changes in the SO 4 program: 1) a deepening in program focus from individual sectors (e.g. forests, coastal zones) to broader environmental management units like watersheds and small islands; 2) increased emphasis on resource valuation and pricing (including valuation of resources that currently have no defined market value, such as water in the rural areas); 3) the development of market-based instruments to encourage more responsible resource use; and 4) increased focus on biological diversity, based on the understanding that: “the future of biodiversity and human society are tightly intertwined in the Philippines.”

Rationale for the Modifications: The SO is being modified for the following reasons:

- Recent studies indicate that the Philippines is probably the richest country in the world per unit area in terms of biodiversity and unique plant and animal species. However, this wealth is under grave threat, only 30% of coral reefs, 50% of mangrove forests and 10% of old growth forests remain intact and nowhere else on earth is habitat conservation more urgent.
- The SO Team has learned from the successful community-based forestry and coastal resources management models that it is necessary to work at both the national and local levels, with field activities informing policy development and better policies encouraging greater field-level impact.
- The Team determined that nationwide adoption of successful community-based forestry and coastal resources management practices was essential for activity sustainability.
- The SO organized three participatory strategy workshops which concluded that USAID needs to integrate its forestry, coastal and industrial work by focusing on targeted geographic areas such as watersheds and small islands.
- A comprehensive evaluation of the Coastal Resources Management Program (CRMP) concluded that it has made major, nationwide achievements and recommended that it be extended to a seven-year period to assure sustainability. It also recommended that: 1) policy efforts be increased to take advantage of opportunities CRMP itself created; 2) training be institutionalized; and 3) that a targeted public awareness campaign be launched.

Collaboration with Other Donors and Integration with Other SOs. Lessons learned under SO 4 will be disseminated through SO 6 local governance activities. In areas where both SOs work,

their activities will be integrated. Coastal and forest management activities in Mindanao are coordinated with the activities of SO 1. The Mission's work to reduce industrial pollution affecting coastal areas is carried out jointly with the U.S. Asia Environmental Program. Natural resource management activities are implemented directly with the GOP and local governments and closely are coordinated with initiatives by the World Bank, the ADB, the UNDP, Japan, Canada, and Sweden.

- **Strategic Objective No. 5: Reduced Growth of Greenhouse Gases from the Energy Sector.**

SO Modifications: Based on close consultation with its partners, the SO Team made the strategic objective statement more precise -- from *"Reduced Emissions of Greenhouse Gases"* to *"Reduced Growth of Greenhouse Gases from the Energy Sector"*. The two existing intermediate results remain the same: *"Increased Use of Clean Fuels,"* and *"Increased Energy Efficiency."* In addition, a new intermediate result has been added: *"Improved Policy Environment (including Power Sector Restructuring and Privatization)."* The following new activities will be undertaken in support of the SO:

- To promote power sector restructuring and privatization, the SO will facilitate passage of the Omnibus Power Bill, which will provide the framework for privatization of the National Power Corporation and greater efficiencies in power production, transmission and distribution.
- To encourage greater use of clean fuels and renewable energies, the SO will support President Estrada's Energy Resources for the Alleviation of Poverty (ERAP) Program, which has set a goal of electrifying 90% of the country. Since many of the areas that need to be served cannot be linked easily to existing electrical grids, USAID will promote the use of renewable energy.
- To enhance the capacity of NGOs involved in climate change activities, the SO will work with NGOs to improve their understanding climate change issues and their ability to advocate for improved policies dealing with renewable energy, energy efficiency, power sector restructuring and sustainability.
- To promote increased energy efficiency (to offset the increased energy use that is expected to result in part from the lower prices associated with power sector restructuring), the SO will seek to reduce energy waste, a win/win situation for industry and the environment.

Rationale for the Modifications: The Asian Financial Crisis has increased greatly the burden of repaying the dollar-denominated debt of the National Power Corporation. Privatization of the Corporation will shift this debt repayment burden (and future investment) to the private sector helping to alleviate GOP fiscal problems. The lower energy prices expected with restructuring and privatization will encourage increased employment and support the pro-poor policies of the Estrada Administration, while also improving air quality through reduced greenhouse gases.

Collaboration with Other Donors and Integration with Other SOs. USAID technical assistance grants to improve energy sector policies are helping to provide the basis for other donors and multilateral banks to extend energy loans to the Philippines. For example, USAID's technical assistance on power sector restructuring and privatization is strongly endorsed by the Asian Development Bank (ADB) and our commitment to provide such assistance helped facilitate the approval of their \$300 million power sector loan. USAID is also coordinating with the World Bank on renewable energies, and the Mission's technical assistance in this area is expected to lay the foundations for a possible loan program to encourage more widespread use of renewables. USAID is also coordinating with UNDP and its assistance to Land Bank of the Philippines to encourage additional lending for renewable energy investment.

- **Strategic Objective No. 6: Significant Progress Toward Sustainable, Self-Correcting Democratic Governance.**

SO Modifications: The SO Team has expanded the focus of the strategic objective statement: “*Broadened Participation In Public Policy Formulation And Implementation In Selected Areas,*” by restating it as: “*Significant Progress Toward Sustainable, Self-Correcting Democratic Governance Nationwide.*” This modification reflects a greater emphasis on sustainability, nationwide impact and overcoming obstacles to effective governance. Intermediate Result 1 has been recast from: “*Effective Local Government with Broad-based Participation in Selected Areas*” to “*Wide Adoption of Effective Local Governance Mechanism and Practices.*” This change highlights the opportunity to spread and sustain good practices of target local governments. As part of the extension of the Government and Local Democracy activity (GOLD), the SO Team has selected a limited group of innovations to roll out nationwide to interested and capable local governments. These include financial resource mobilization, management of natural resources, and investment promotion. Much of the rollout process will be accomplished through the private sector and in conjunction with other USAID/Philippines Teams, notably SO 1 (Mindanao), SO 3 (health) and SO 4 (environment).

The Team will also continue to emphasize efforts to enhance the capacity of local government leagues to carry out policy analysis, advocate for local autonomy issues, share information on policy gains, and disseminate innovations. It will collaborate with other teams, notably SO 2 on support of policy reform work.

IR 2 language will be changed from “*Effective Participation of the Disadvantaged*” to “*Effective Political Participation of the Disadvantaged.*” Activities in support of this IR now will help poor and disadvantaged groups participate more directly in the political process, in both legislative action and implementation. However, additional attention will be given to helping NGOs to become financially sustainable and entrepreneurial and to encourage philanthropic giving among Filipinos.

There will be a new IR: “*More Transparent, Accountable and Responsive National Government Institutions.*” The Asian Financial Crisis and recent efforts by USAID/Philippines to highlight the costs of corruption has created a favorable atmosphere for work in this area. Activities under

this IR will support NGO coalitions and media groups to advocate for reforms in the justice sector, procurement systems and electoral systems, with the aim of increasing transparency and accountability. Activities may also assist government leaders committed to fighting corruption within their organizations and strengthen anti-corruption activities within the judiciary.

Rationale for Modifications: USAID has sponsored many successful innovations in participatory governance among local governments in nine provinces and two cities. Likewise, it has had significant success in its efforts to develop the capacity of 15 civil society coalitions to advocate for the disadvantaged. It has now become possible to build on these efforts to help the Philippines move toward a system of sustainable, self-correcting democratic governance. Civil society needs assistance to become financially independent of foreign donors. Corruption and judicial improprieties are limiting the success of all innovations in governance, and USAID will support civil society partners as they advocate for much-needed reform in public procurement and administration of justice.

Collaboration with Other Donors and Integration with Other SOs. More than any other strategic objective, SO 6 is the force integrating the USAID strategy. SO 6 work in building local government capacity helps achieve Mission objectives in economic growth (SO 1 & 2) health (SO 3) and environment (SO 4). Under the modified strategy contractors and grantees will work together more intensively in areas where they are co-located, in policy analysis and advocacy, and in disseminating models for effective local governance. Priority will be given to rolling out successful governance innovations to the geographic areas that are the focus of other strategic objectives. Many civil society grants also have strong links to the Mission's work in economic growth (e.g. establishing microfinance standards, expanding participation in policy-making in high-growth areas, and opposing child labor.) In its support for civil society work, USAID collaborates with the Ford Foundation and several German foundations and is advising Japan on working more effectively with NGOs. SO 6 is also collaborating with Canada to build the capacity of local governments in Mindanao and the Visayas. As the SO Team becomes more active in corruption and justice issues, it intends to collaborate with other donors such as the World Bank, Germany and UNDP.

VIII. REQUESTED ACTIONS

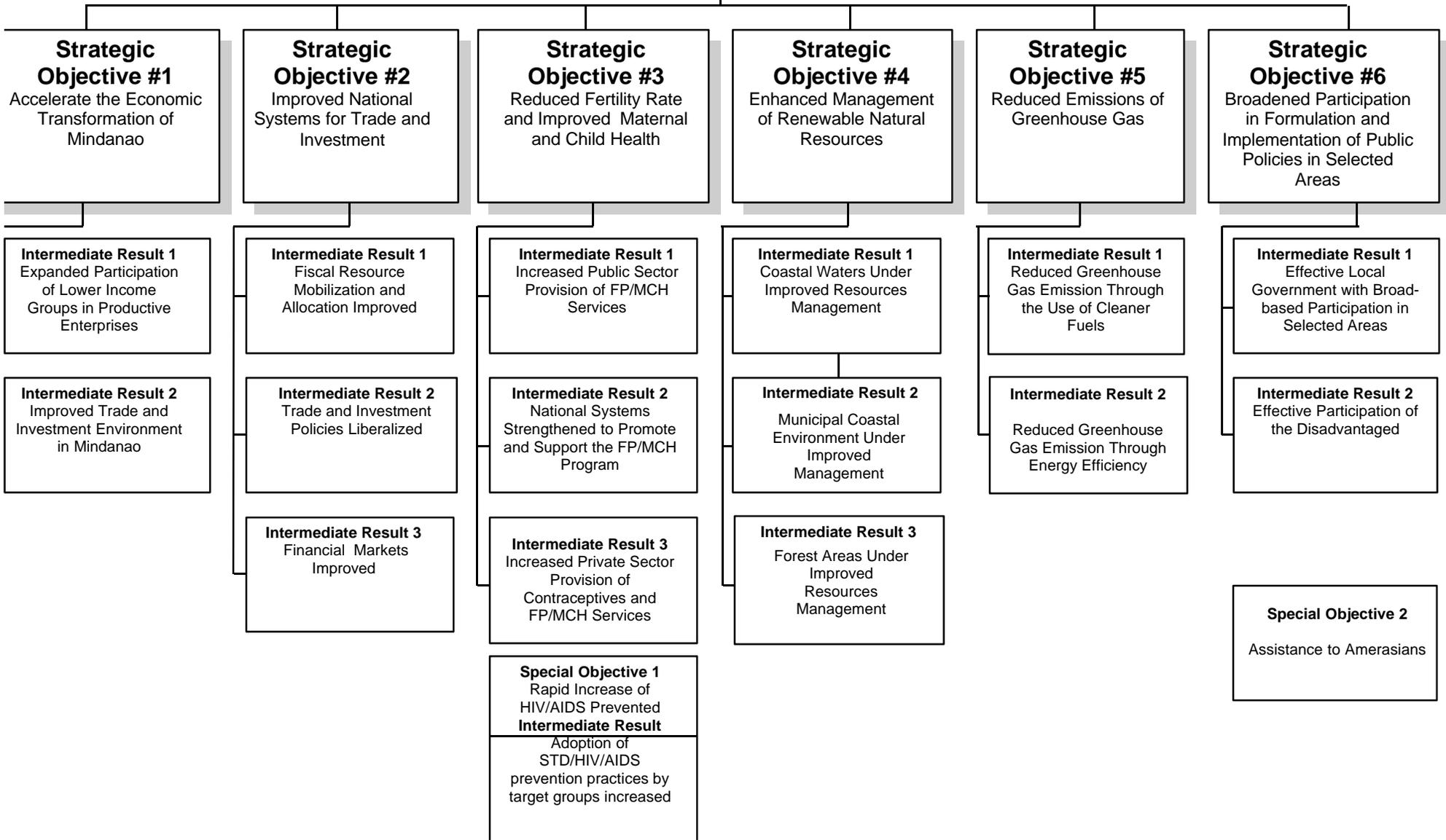
We request that the Bureau approve the revised USAID/Philippines Mission Strategy as described above, and the following specific changes:

- Extension of SO 1 (Mindanao) from 2001 through FY 2003.
- Revision of the SO 2 statement from “*Improved National Systems for Trade and Investment*” to “*A More Stable and Competitive Economy*” and extension from 2001 through FY 2002.
- Extension of SO 3 (Reduced fertility and improved MCH) from 2001 through 2004.

- Revision of the SpO 1 statement from *“Rapid Increase of HIV/AIDS Prevented”* to *“Threat of HIV/AIDS and Selected Infectious Diseases is Reduced”* and extension of the SpO through from 2001 FY 2004.
- Revision of Strategic Objective 4 from *“Enhanced Management of Renewable Natural Resources”* to *“Improved Environment Management for Long-term Sustainability”* and extension of the SO from FY 2002 through FY 2003.
- Revision of SO 5 from *“Reduced Emissions of Greenhouse Gases”* to *“Reduced Growth of Greenhouse Gases from the Energy Sector”*.
- Revision of Strategic Objective 6 from *“Broadened Participation in Formulation and Implementation of Public Policies in Selected Areas”* to *“Significant Progress Towards Sustainable, Self-correcting Democratic Governance”* and extension of the SO from FY 2001 through FY 2002.

USAID/PHILIPPINES OBJECTIVE TREE

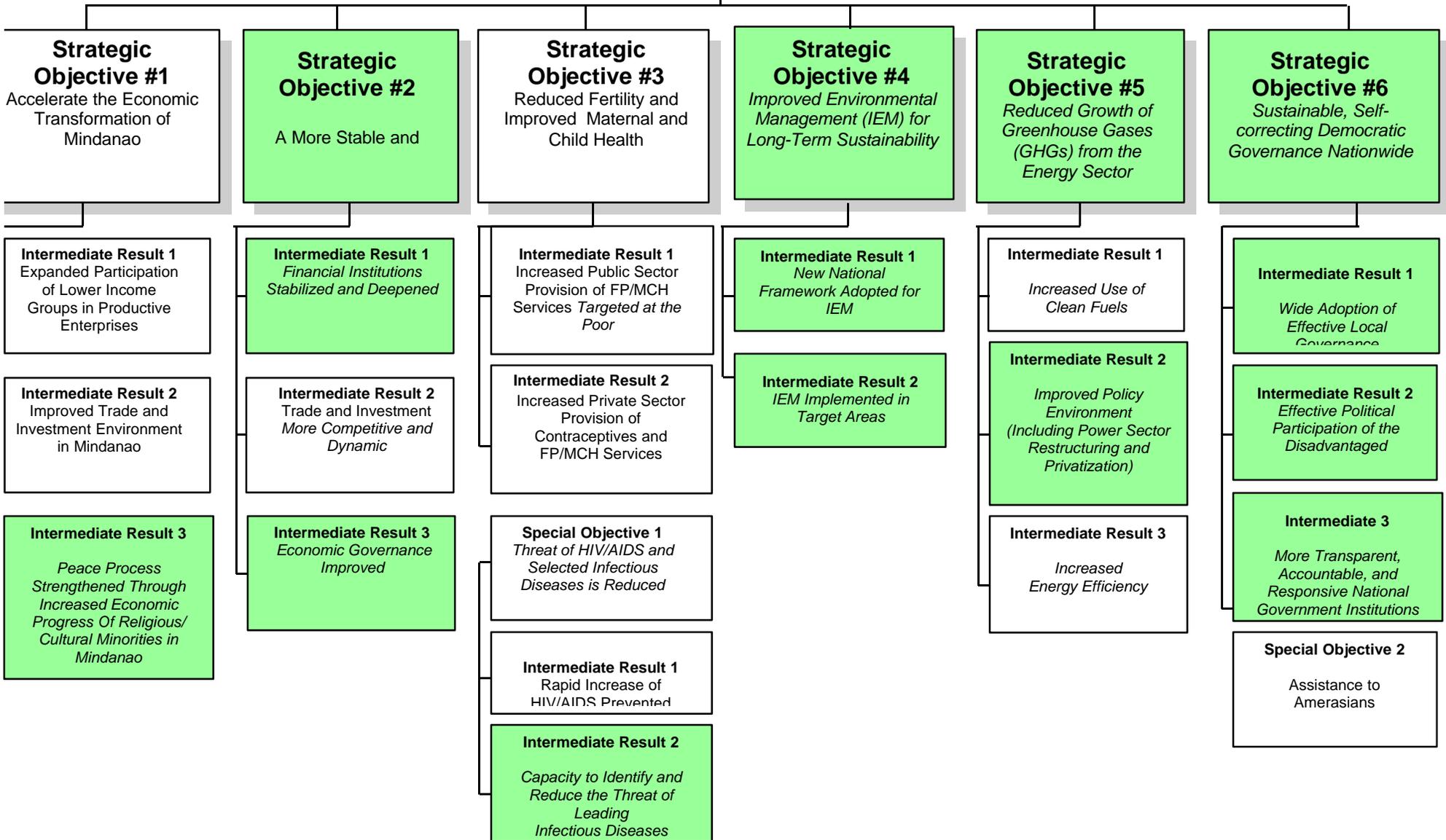
MISSION GOAL
New U.S.-Philippine Partnership for Democracy and Development



Note: Colored boxes are new or revised SOs and IRs

USAID/PHILIPPINES OBJECTIVE TREE

MISSION GOAL
New U.S.-Philippine Partnership for Democracy and Development



ATTACHMENT B: ANTI-CORRUPTION PLAN

BACKGROUND: Pervasive cronyism and corruption in the Philippines is a major impediment to rapid and broad-based development. Most Filipinos and outside observers believe government institutions in all sectors and at all levels are plagued with corruption. This negative view is coupled with a widespread cynicism about the ability of government to combat corruption within its ranks. The bureaucratic, business, and political cultures of the Philippines are distressingly tolerant of corruption and the inefficiencies it produces. At the same time, many important economic and political actors in society believe corruption must be brought under control to allow the Philippine economy to grow.

Like other new governments, the administration of President Estrada has publicly enunciated a strong commitment to battling corruption, and some high-level appointees are making important moves toward real reform. In addition, current economic and political circumstances may combine to permit more anti-corruption reform than in previous Philippine administrations.

Economic and political concerns have converged at this point in history for several reasons. First, the slowdown in economic growth and the government budgetary pressures associated with the Asian financial crisis have brought issues of corruption and government waste to the forefront of popular discussion in the Philippines, as in other affected countries. Furthermore, rapid economic liberalization and expansion since the ouster of the Marcos regime have widened the circle of competing economic interests among dominant elites and created a larger middle class. This process has increased competition between dominant and newly emerging business interest groups, as well as increasing pro-liberalization sentiment within the business community.

In addition, many concerned with the state of the Philippines and its economy have real fears about any return to the corruption and cronyism suffered during Marcos' dictatorial rule. (The term "crony capitalism" was coined to describe Marcos' contribution to economic philosophy and practice.) Thus, anti-corruption reform is valued by many as a significant political objective in its own right, as well as a strategy for improving government's allocative efficiency, enhancing market-based competition, and limiting pilferage of public resources and enrichment of a small circle of bureaucrats and connected business interests.

A final advantage for anti-corruption reform is that politics in the Philippines is highly decentralized, with strong local involvement in public affairs, an independent legislative branch, a free and vocal press, and an active NGO community. These institutional forces generate greater pressures to expose corruption than exist in less democratic and decentralized political systems, as well as greater opportunities for channeling popular pressures into actual adoption and implementation of anti-corruption measures at both the national and local level.

ANTI-CORRUPTION REFORM NEEDS AND USAID PRIORITIES. Corruption is a serious problem in the Philippines, which the government needs to address. The Mission is addressing anti-corruption reforms throughout its portfolio and plans to help the government in

significant ways. These joint efforts will focus on policy and regulatory reforms that reduce the scope for discretionary decisions on the part of officials in areas where corruption incentives have traditionally been strong. These efforts will involve both tightening public resource-management and administrative-oversight guidelines, and improving administrative review and audit procedures. The Mission will also help improve the efficiency and accountability of the judicial system, promote alternative dispute-resolution systems, and help business leaders and civil society groups press the government to implement reforms.

Procurement. The crisis has highlighted the need for greater transparency and cost-efficiency in public procurement. Abuse of the public procurement system is among the hottest political topics in the Philippines, and the need for systematic reform is widely recognized. Reform will involve the development and application of streamlined and competitive procurement guidelines for different types of public procurement, building in part on the principles developed at the BOT Center, with USAID's support.

In addition, reform will entail systematic improvement in procurement audit practices. USAID will also explore the development of a performance audit system, in order to improve the cost-efficiency and targeting of major public expenditure programs and to reduce opportunities for arbitrary and wasteful bureaucratic behavior. This will involve training and improved budget planning and review practices in the Department of Budget and Management (DBM) and line ministries, as well as systematic improvement of the audit standards and practices of the Commission on Audit (COA). A small grant to Transparency International will fund the expansion of "Integrity Pacts", a procurement reform program that has worked in other countries.

Taxation. Customs and tax administration also require dramatic upgrading. In addition much needs to be done to make taxation and tax collection more equitable. Implementing the GOP's WTO commitment to reform customs processing and valuation procedures, along with development of a strong internal audit and review functions, are key to reducing the scope and incentives for obstructive and corrupt practices in the customs area. On the tax administration side, development of an efficient selective audit system for taxpayers, as well as further progress in systematizing tax information computerization and development of a strong internal audit and review system, are crucial to streamlining and improving both the cost-efficiency, integrity and equity of tax administration.

On the trade policy side, multiple tariff structures and non-tariff barriers for key agricultural products, carried out within the context of direct state intervention in grain markets, create opportunities for graft and corruption, as does the weak regulatory enforcement system in the IPR area.

Regulation. Key infrastructure industries, including transport, power, and telecommunications, need to have a proper regulatory and competitive environment to improve investment and efficiency incentives and reduce the scope for corrupt practices. In addition, general business regulation, including business registration, licensing, permitting, and inspection practices, while

less onerous than in many developing countries, nonetheless raises business costs and creates opportunities for harassment of business. Further streamlining of these practices, including at the local level would reduce the incentives for petty graft and corruption.

Judiciary. The Philippine judiciary is widely seen as not functioning in a manner that promotes rapid and transparent settlement of market disputes, and its level of training and professionalism in dealing with both commercial and civil cases is poor. Arbitrary decision-making is rampant and often impinges on the proper exercise of the executive branch's administrative authority. Moreover, there is nothing resembling an effective judicial oversight system in place. Both case tracking and judicial reviews are inadequate, and systematic training, both on principles of sound judicial administration and on proper application of the rapidly evolving civil and commercial law system is deficient.

Elections. Finally, electoral corruption remains a key contributor to poor governance and an important constraint on the development of a healthy political culture. At the national level, electoral fraud has not affected key races in a direct or significant manner. However, hotly contested local races are frequently influenced through illegal means, which range from vote buying to ballot stuffing and manipulation of the tallying process. Moreover, the cost of running for office is prohibitive and leads to corruption in office, due to extensive networks of favors and support. As is symptomatic in most Asian political systems, these tightly woven webs of relationships and obligation heighten the incentives and opportunities for corruption at all levels. Political parties are weak and do not impose needed discipline on politicians, as parties are organized around personalities rather than on substantive issues. Due to political sensitivities and funding constraints, USAID cannot play a significant role in many of the political reforms needed, but will continue to monitor the situation and provide assistance as appropriate.

USAID'S ASSISTANCE STRATEGY. The Mission's support efforts will include technical assistance and training to improve the efficiency and accountability of public resource management and administrative oversight in the areas enumerated above. USAID's strategy will also take full advantage of the strength of civil society institutions, emphasizing the mobilization of public awareness of the need for reform. This will include a particular focus on building support from key business constituencies, whose backing can improve the prospects for adoption and effective implementation of anti-corruption reforms

Assistance to coalitions of watchdog groups, media, and business (including major international firms and chambers of commerce) will serve as the "venture capital" for a sustained effort. The coalitions will provide basic research and information dissemination, assist key players in government and the private sector in setting a national agenda to combat corruption, help implement and monitor anticorruption activities with selected institutions, and advocate legislative and policy reforms.

In addition, Transparency International (TI) and its local chapter have entrée due to their international experience, and a certain cachet due to the caliber of their local founding board. The assistance will provide a means for TI's local chapter to bolster its operation and begin with

some concrete activities based on past successes. TI already plans an extensive review of government procurement policies and a national awareness campaign.

On the supply side, the Commission on Audit (COA) is leading a new Interagency Council on Combating Corruption, made up of the six key agencies: the Department of Justice, the National Bureau of Investigations, the Ombudsman, the Civil Service Commission, the Presidential Commission on Graft and Corruption, and COA itself. The Council has proposed a coordinating mechanism and pilot prosecution of five cases to test the system. Such coordinating councils have proven useful in other countries' attempts to revive moribund government agency efforts to renewed drives against corruption. Direct support in anti-corruption investigation and oversight strategy and techniques will be provided as appropriate to this promising effort.

Other important reform efforts by the GOP under the Estrada Administration include the Commissioner of the Bureau of Immigration's (BI) moves to strengthen operating systems and controls in order to provide cost effective and efficient services to their customers. Based on the Commissioner's demonstrated capability and commitment to take decisive action for reform, USAID, in collaboration with the US Embassy, invested \$150,000 in technical assistance and observation tours to the US. Within 8 months, specific results of the BI include: improved accountability in procurement and financial management, substantial increase in government revenues, a major reduction of illegal and criminal foreigners entering the Philippines, an ongoing training program to improve employee performance, and the removal of poorly performing and corrupt officials. As a result of his efforts, the Commissioner was praised and honored in December 1998 by President Estrada for his reform efforts. The Commissioner is also currently contacting other government agencies to promote the anti-corruption assistance provided by USAID.

USAID's proposed anti-corruption support program will thus focus on technical assistance and training designed to streamline and improve the efficiency and accountability of public resource management and administrative oversight systems, and to further improve the economic policy environment in a manner that heightens competitive pressures and reduces the scope for rent-seeking behavior. It will also seek to provide a concentrated and sustained program of advocacy and awareness from the proposed coalition of businesses and NGOs which can serve to effectively channel the rising tide of public sentiment for greater transparency and accountability in government. This will help break the cycle of corruption in selected government agencies, and could also serve as the catalyst for future reform once USAID's assistance is terminated.

ATTACHMENT C: PROPOSED PROGRAM INDICATORS

This attachment briefly presents indicators that will be used in future R4 documents to monitor program results under the modified strategy. The Mission will also track a number of other strategic objective and intermediate results level indicators under the modified strategy but these are not reported upon here.

- **SO 1: Accelerate the Economic Transformation of Mindanao.** SO 1 will report on the four indicators below.
 - a) Increase the annual value of higher value products shipped from Mindanao from the 1998 level of \$3.1 billion to \$5.2 billion in 2003.
 - b) Increase the number of families initiating commercial production of more lucrative products by 10,600 a year during 1999-2003
 - c) Increase the level of USAID-facilitated investment per year from \$88 million in 1998 to \$300 million in 2003.
 - d) Increase the annual number of microenterprises and small producers receiving financial services from formal institutions (depositors and borrowers) from 5,400 in 1998 to 18,000 in 2003.

- **SO 2: A More Stable and Competitive Economy.** SO 2 will report on the following indicators:
 - a) Increase the ratio of gross domestic capital formation to gross domestic product from 21.9% in 1998 to 28.5% in 2002 (preliminary target).
 - b) Increase the ratio of domestic tax revenues to gross domestic product from 12.8% in 1998 (estimate) to 14.7% in 2002 (preliminary target)
 - c) Decrease effective protection rate from 19.0% in 1998 to 11.0% in 2002.
 - d) Increase level of male employment from 7.62 million in 1998 to 9.26 million in 2002 and the level of female employment from 3.88 million in 1998 to 4.7 million in 2002 (preliminary target).

- **SO 3: Reduced Fertility Rate and Improved Maternal and Child Health.** Key results that will be accomplished by end of the strategy include the following:
 - a) Reduce the total fertility rate from 3.7% in 1998 to 3.0% in 2004.
 - b) Increase modern method contraceptive prevalence rate from 28% in 1998 to 38% in 2004.
 - c) Reduce the percentage of births in high-risk groups from 57 in 1998 to 50 in 2004.
 - d) Reduce the infant mortality rate from 35 per 1,000 live births in 1998 to 30 in 2004.
 - e) Increase the percentage of fully immunized infants from 65% in 1998 to 75% in 2004.
 - f) Increase the percentage of newborns whose mother receives two or more tetanus toxoid immunizations from 38% in 1998 to 52% in 2000.

- **SpO 1: Threat of HIV/AIDS and Selected Infectious Diseases is Reduced.** SpO 1 will report on the following indicators:

- a) HIV seroprevalence remains below 1% in the general population in 2004.
 - b) HIV seroprevalence remains below 3% among registered female commercial sex workers in 2004.
 - c) Tuberculosis sputum-positive cases that are cured increased (targets through 2004 to be developed).
 - d) Fatalities among children from dengue decreased (targets through 2004 to be developed).
 - e) Malaria cases cure rate increased (targets through 2004 to be developed).
- **SO 4: Improved Environmental Management for Long-Term Sustainability.** The following indicators are illustrative of the indicators that SO 4 expects to report on:
 - a) Annual change in forest covers in high-priority watersheds.
 - b) Annual change in coral cover and fish abundance at selected coastal monitoring sites of high-priority watersheds.
 - c) Improved local and national policies promoting watershed management.
 - d) Strengthened and coordinated government and non-government organizations that promote watershed management.
- **SO 5: Reduced Growth of Greenhouse Gases from the Energy Sector.** Results indicators will be those developed recently in close coordination with USAID/Washington staff. These are:
 - a) Full achievement of policy goals that contribute to the adoption of legislative or administrative actions that increase efficiency and/or cleaner production in the Philippine energy sector by the year 2002 (uses a policy achievement index).
 - b) Fossil fuel-based energy saved or avoided through clean fuels, cleaner fuel technologies, and increased efficiency in energy generation, transmission and distribution increases from 3,330 megawatt-hours (MW-h) in 1998 to at least 7.6 million in 2002 achieved with support from USAID.
 - c) Fossil fuel-based energy saved through increased end use efficiency (achieved with support from USAID) increased from 412 MW-h in 1998 to at least 5,350 in 2002.
 - d) Tools for improved energy sector development and management, provided with assistance from USAID capacity/capability building, implemented or used by Philippine government agencies or electric utilities.
 - e) Emissions of carbon dioxide equivalents avoided through improvements in the energy sector, achieved with support from USAID. This indicator will be calculated in USAID/W, with data provided by the Mission.
- **SO 6: Significant Progress Toward Indicators for the Revised Strategy:** The following indicators are illustrative of the indicators that SO 6 expects to report on:

- a) Net percent of people who feel their priority concerns are being addressed by LGUs rises by 10%.
- b) Net amount of self-generated revenues collected by target LGUs increased from Pesos 203 million to Pesos 4,000 million by the end time the SO ends in 2002.
- c) Increase in the number of policy decisions/policy actions influenced by the participation of the disadvantaged sectors.
- d) Decreased perception of corruption by surveys of businesses or firms attempting to do business with the state. (targets to be developed).
- e) Greater percent or number of examples of full investigation of significant breaches of procedures or ethics at relatively high level being pursued fully and fairly to transparent outcome, and if necessary, to prosecution and enforcement. (Targets to be developed.)