

**Revitalizing the Economy and Transforming Governance to  
Accelerate Sustainable Growth:**

**An Addendum to the USAID/Philippines Strategy for  
FY 2000 - FY 2004**

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**USAID/Philippines  
Manila**

**October 1, 1999**

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### **I. SUMMARY OF THE REVISED STRATEGY**

USAID/Philippines is pleased to present this Strategy Addendum, outlining a new program to ensure continued USAID leadership in revitalizing the Philippine economy and transforming governance to accelerate sustainable growth. The addendum fully responds to ANE Bureau guidance (State 133166 and State 133167, dated 07/15/99) directing the Mission to base its revised strategy on an annual program budget of \$30 million in DA, consisting of: \$22 million for health and family planning; \$4 million for global climate change; \$4 million for economic growth, democracy or other discretionary activities. In addition, the Mission was told it could expect \$5 million in AERA funding in FY 2000 and \$2 million in 2001.

Responsive to changing local and international circumstances, the revised strategy fundamentally reshapes USAID development assistance in a nation that is one of the U.S. government's most important allies and development partners. It lays the groundwork for a more focused and consolidated program, builds carefully on USAID's comparative advantages, and addresses the challenges of program transition, including reduced program and OE funding and staff levels. Structurally, the strategy:

- Ensures continued USAID leadership in fostering sustainable economic growth, better population and health policies and programs, and more responsible environmental management.
- Reduces the number of SOs from the current six to four SOs by the end FY 2000 and to three by the end of FY 2001. The reduction will be implemented by:
  - 1) integrating SO6 (Democracy and Governance) objectives and resources into the Mission's other SOs;
  - 2) combining SO4 (Natural Resources Management) and SO5 (Global Climate Change) into a single Environment SO;
  - 3) merging SO1 (Economic Growth/Mindanao) and SO2 (Economic Policy) into a single SO; and
  - 4) upon completion of a feasibility study, folding SpO1 (HIV/AIDS) into SO3 (Family Planning).
- Reduces Mission staff levels with the number of USDHs declining from 16 in FY 1999 to 14 in FY 2000, and to 13 in FY 2001. Local staff will decline over the same period consistent with normal attrition rates.

Operationally, the new strategy:

- Assures effective consolidation and orderly phase-out of USAID's historic efforts in Mindanao, leaving a far more robust and dynamic economic and social context for increasing peace and prosperity.

- Provides critical and comprehensive technical assistance (through the AGILE Program) during the early and middle years of the Estrada administration and during the critical period of recovery from the Asian Financial Crisis. This will be done by:
  - 1) assisting efforts to reduce corruption, including measures to increase transparency and predictability in corporate and public sector governance;
  - 2) enhancing competition thus improving efficiency and broadening participation by enterprises;
  - 3) improving the quality of regulations and enhancing the capacity of regulators to design and implement policies for sustainable growth; and
  - 4) improving the business environment by reducing compliance costs and facilitating growth.
- Fundamentally restructures USAID assistance in family planning, with a path-breaking transition to private provision of family planning services that will effectively reduce the Philippines' crippling rate of population growth.
- Phases out sectoral activities in the environment in favor of integrated watershed management in a limited number of key areas to support conservation and promote food security in locales that many believe to be endowed with the world's richest, most endangered and biologically diverse eco-systems.
- Intensifies efforts to restructure and privatize the power sector, reduce electricity costs through increased competition, reduce power sector related public debt, and stimulate economic recovery while reducing greenhouse gases.
- Transitions the Mission's important democracy and governance objectives and activities from a "stand-alone" program with advocacy and participation as independent "ends" into an integral feature of the Mission's entire portfolio by using best practices in advocacy and participation as critical "means" to achieve other Mission program objectives. Thus, under the revised strategy, DG approaches and results will become long-term, fully integrated mechanisms to achieve sustainability in all SO results.

In summary, the new strategy represents a more focused and measured approach to revitalizing the Philippine economy, an approach that is solidly rooted in a sound understanding of USAID's comparative advantage, that builds on potentials for synergy within the Mission's portfolio and that takes advantage of opportunities for increased collaboration with the GOP and other donors. Despite reduced funding, we believe our strategic approach will enable USAID to maintain its leadership position in the development community and continue to identify new and better ways to help our Filipino partners move the country forward. If successful, USAID efforts will not only contribute to an improved quality of life in the Philippines, but also help to achieve many of the USAID's most important global objectives. Our technical cooperation partnership will thereby directly support stability and progress of one of the U.S. Government's most trusted allies in this rapidly changing part of the world.

The development of this new strategy owes much to the contributions of our local partners and to the continued support of the ANE Bureau and USAID/W. Together we will work to revitalize the Philippine economy and transform governance to accelerate sustainable growth.

## **II. THE LINKING THEME OF THE REVISED STRATEGY**

The June strategy submission noted that while the Philippines has come through the Asian Financial Crisis and a severe drought with limited adverse effects and is now growing again, deeply ingrained obstacles to sustainable growth remain. The persistence and severity of these obstacles is highlighted by the fact that economic growth in the Philippines has lagged well behind most of its Asian neighbors over the past 30

years. This applies not only to the “Asian Tigers,” but also to less advanced economies of the region. For example, 1998 per capita income in economically troubled Indonesia was 45% higher than in the Philippines (\$3,770 vs. \$2,600), measured in terms of purchasing power parity. In East Asia, only Burma, North Korea, and the economies of Indochina have performed more poorly.

Economic growth in the Philippines has averaged 3.0% annually over the last 30 years, while population growth has averaged 2.6%. Although remittances from overseas workers have helped to boost increases in per capita income somewhat, the rise in real income has nonetheless been very modest during the period. Furthermore, the downside of remittances has been the loss of many of the best and brightest Filipinos to overseas jobs, which has cost the economy and society dearly.

Ironically, the Philippines has lagged economically while its democratic systems have demonstrated vibrancy and resilience. The failure of the Philippines to more effectively capitalize on its democratic systems is the result of three deeply ingrained obstacles to growth:

- high fertility rates and consequent rapid population growth;
- profound systemic weaknesses which have allowed corruption to flourish, inhibited the development of fully competitive markets, and limited the government's capacity to raise revenue and make critically needed investments in human resources and infrastructure; and
- the lack of technical skills, financial capacity, and political will to protect the natural environment, which, combined with the obstacles cited above, threatens basic food security and globally significant biological diversity, promises to greatly accelerate rural to urban migration over the short term, and could make large parts of the Philippines virtually uninhabitable over the long term.

High fertility has been widely recognized as a problem by the development community in the Philippines. The significance of the latter two problems cited above, however, has not been generally recognized until recently. This delayed recognition is, in part, a fortuitous outgrowth of the Asian Financial crisis and we believe now is the time to intensify our focus on these issues. Therefore, we have decided to place highly focused efforts to combat and overcome these obstacles to growth at the heart of the Mission's revised strategy.

We propose the following theme to link the individual components of the USAID/Philippines program:

***Revitalizing the economy and transforming governance to accelerate sustainable growth.***

Under this consolidated, more focused strategy, the Mission will capitalize on the special relationship between the United States and the Philippines, and on USAID's comparative advantages in: promoting competition and transparency, combating corruption and cronyism, using systematic (rather than opportunistic) approaches to donor coordination and collaboration, encouraging environmentally sustainable development and employing market-based mechanisms to promote family planning and reforms in health services delivery.

### **III. THE REVISED MISSION PROGRAM FY 2000-2004**

USAID/Philippines intends to maintain its core institutional capacities in economic growth, environment, health, and democracy while focusing this capacity more narrowly on the obstacles to sustainable growth identified above. In particular, two elements of USAID's existing program will not fit into the longer-term

scenario: the stand-alone democratization program, and the area-development program on the island of Mindanao.

The Philippines has already achieved a greater degree of democratization than many other developing countries, and USAID democracy professionals consider the Philippines to be one of the Agency's success stories. Rather than reaching for even higher goals in stand-alone democracy programs, the Mission proposes to capitalize on its long experience and expertise in local governance and citizen participation in the Philippines by integrating the best practices in these areas to ensure sustainability of successful interventions in our economics, health, environment/energy sectors.

USAID/Philippines' economic development area program in Mindanao has been a model of achievement in an environment of both great poverty and civil strife. Our GEM project in particular has received worldwide attention over the years. Mindanao continues to be the Philippines' poorest region. Transitional problems for the MNLF's ex-combatants, and potentially for the MILF's ex-combatants should a peace arrangement be reached, require continued attention from the GOP. However, the reduced level of resources available to maintain such a comprehensive program to stimulate economic development and peaceful transition in Mindanao demands a more targeted, less comprehensive approach that will rely more on partnerships with other donors.

Nonetheless, by 2001, USAID assistance will have built a substantial and sustainable business environment in Mindanao, which will continue to succeed in attracting investor interest and donor support. Furthermore, the Mission's national economic policy dialogue will continue to emphasize the infrastructure and trade issues of most importance to Mindanao's economy. This will be the most cost-effective way to support continued economic development on the island of Mindanao. Similarly, health reforms and environment and energy policy changes should achieve direct and sustained impacts on the quality of life of the island's population.

The sections below describe the specific steps being taken to revise the USAID/Philippines Country Strategic Plan. This discussion is followed by an analysis of planned corresponding changes in the Mission's management structure, program budget, operating expense budget, and staffing pattern.

### **III.A. SO1: "Accelerate the Economic Transformation of Mindanao."**

USAID's activities under SO1 have been very successful, both in terms of actual results coming from the activities, and perhaps more importantly, in terms of encouraging the GOP and other donors to substantially increase the level of resources devoted to Mindanao. While USAID ranks only seventh among donors in the amount of resources being invested in Mindanao, the GOP regularly cites USAID as its "chief partner in the development of Mindanao."

As a result of USAID's involvement in Mindanao, many new opportunities for sustained economic progress exist. Investment in the island is increasing, new employment opportunities are being created, the infrastructure base is being improved, and government policies that affect prospects for continuing economic growth are becoming more favorable. While there have been some setbacks because of the Asian Financial Crisis and El Nino-associated drought and crop failures, Mindanao is clearly on the path to becoming one of the more productive areas of the country, and an area where the benefits of economic progress are widely shared.

Despite having less resources than anticipated, the Mission expects to make substantial progress toward achievement of the SO by its completion date of September 2001. However, reduced resources will limit the USAID-supported "spread" of some major activities. For example, the Microenterprise Access to

Banking Services in Mindanao Program (MABS-M) will help only 30-40 rural banks develop the capacity to profitably service microenterprises rather than the 60-100 banks originally planned. Similarly, the number of targeted beneficiaries from the Emergency Livelihood Assistance Program (ELAP) will be reduced from 16,000 to 11,000.

With reduced resources, USAID will rely more heavily on other donors and on private sector counterparts to replicate or expand certain SO activities. In addition, core GEM activities will be concentrated in geographic areas and sectors where development payoffs have been greatest.

In situations where the continuation of SO1 activities is crucial, ongoing efforts to ensure sustainability will be intensified. For GEM, this principally means intensifying work on the Business Support Organization (BSO) Strengthening Program. GEM-assisted BSOs will take on several key functions GEM has been carrying out, including policy analysis and advocacy, investment promotion, and technical outreach.

For the MABS-M Program, the Rural Bankers Association of the Philippines (RBAP) will be given major responsibility for helping rural banks develop the capability to profitably service microenterprises. Under ELAP, new commitments from IFAD and the British Government to fund ELAP production inputs (while USAID continues to provide training, technical support and marketing support) will partially offset the reduction in the size of that program. In addition, with assistance from OTI's SWIFT program, the Mission is facilitating greater linkages between Mindanao National Liberation Front (MNLF) communities and the Department of Agriculture, the Department of Agrarian Reform, and local government units (LGUs). This will result in substantially increased levels of government services to these communities. The Mission expects the following will be achieved by the SO completion date:

- Mindanao will regularly receive its "fair share" of public investment;
- the island will have a highway network that links virtually the entire island, air connections between major cities, and acceptable and growing telephone density;
- at least 25% of the rural banks on Mindanao will offer microenterprise services as a permanent and significant part of their portfolio;
  - production of at least five "non-traditional" crops or products (e.g., potatoes, peanuts, vegetables, tilapia, and mangrove crabs) will be solidly established with several thousand farmers producing these crops and planting of lucrative "traditional" crops (e.g., mangoes, and coffee) will at least double;
  - at least 40% of former MNLF combatants will be making a reasonable living as farmers; 6) at least 10 key "business support organizations" will be effectively functioning and providing needed services to their clients/members, while also functioning as capable advocates for Mindanao's continued economic progress; and 7) national government policies will be generally favorable and supportive of sustainable economic growth in Mindanao.

**Integration of Democracy Approaches.** With the planned phase-out of SO1 at the end of FY 2001, the integration of democracy advocacy and participation mechanisms will focus primarily on the policy component of SO1. SO1 will develop more effective mechanisms to advocate for the economically and environmentally sound development of Mindanao on the national stage. In addition, efforts will be made to strengthen business and NGO organizations in Mindanao that are capable of promoting policy changes to accelerate the pace of sustainable development.

**Merger of SO1 and SO2.** Responsibility for the management of SO1 and SO2 is being consolidated under a single USDH. All SO1 field activities will be completed by the end of FY 2001. However, the Mission will begin to integrate the policy component of SO1 into SO2 at the end of FY 2000.

### **III.B. SO2: “A More Stable and Competitive Economy.”**

Within Southeast Asia, the Philippines stands out as a special U.S. partner that is mid-way in its economic transition. After a generation of lagging behind its newly industrializing neighbors, the Philippines achieved political and economic stability in the early 1990s. Policy makers, businessmen and ordinary citizens began to see dramatic demonstrations of the benefits of openness to international trade and increased domestic competition. Examples include:

- assembled electronic products, which were not exported at all before the 1990s, grew to 60% of gross exports by the end of the decade, making the Philippines a leader in the region;
- electrical power generation was opened to private investment, rapidly eliminating a crippling electricity shortage;
- telephone service was opened to competition, leading to a ten-fold increase in phone lines; and
- poverty fell by approximately 1% of the population per year between 1985 and 1997, implying that shortly after 2010 the Philippines’ poverty rate could be reduced to the same level as achieved by Indonesia in the mid-1990s.

The 1997-98 Asian Financial Crisis and the El Nino drought, however, brought about a pause in Philippine growth. The transition to a new GOP Administration that occurred during this pause was the occasion for a reexamining the benefits of liberalization during the 1990s. While economic progress has slackened, the Philippines has not reversed its course. Despite its high rate of poverty, it stands as a positive example amid the doubts and problems that characterize its ASEAN neighbors such as Malaysia, Indonesia, and Thailand. Furthermore, the Philippines is poised to resume growth through increased liberalization and improved economic governance.

USAID’s ongoing economic policy program is closely integrated into the USG’s multi-agency effort within the U.S. Embassy. Working closely with Philippines beneficiaries as well as with USG partners, USAID’s economic policy program furthers objectives identified by State, USTR, ExIm, FCS (Commerce), USDA, Treasury, IRS, and the U.S. Customs Service. Core U.S. interests in the Philippines, which grow out of exceptionally strong trade and historical ties with the United States, are addressed by USAID’s SO2 policy program. These include poverty reduction, an open environment for trade and investment, and financial stability. As both a USG agency and a donor, only USAID can play this role. USAID brings to the USG effort the special dimension of partnership with Filipino counterparts in the GOP and the private sector.

USAID continues, despite its modest size, to be preeminent among donors in effectively managing programs in the field. This capacity is utilized by USAID’s partners among other USG agencies, including agencies that have personnel at the Embassy, because no other agency at post has USAID’s program management capacity. For example, the Philippines’ efforts to implement WTO commitments are also bilateral, U.S.-Philippine concerns. USTR and State can signal their concerns, but only USAID can manage sustained support to the Philippine side.

USAID’s program management capacities also provide USAID with a special role vis-à-vis the multilateral donors including the IMF, the World Bank, and the ADB. To give three examples: 1) the IMF, through the

GOP's Department of Finance and Bureau of Internal Revenue (BIR) asked USAID to finance a workshop on tax administration for IMF and BIR staff; 2) the World Bank has called on resident USAID advisors to assist in programming and managing World Bank technical assistance funds in retirement pensions and bank supervision; and 3) the ADB has called on USAID to finance research on grain-markets reform in an effort to support development of policy-based loan from the ADB.

In short, the technical and management strengths of the SO2 team constitute a unique resource. This resource is not just drawn upon by the many Philippine institutions that are the recipients of assistance, but by USG and international partners as well.

#### **Promoting Transparent Procurement through Technical Assistance and Advocacy**

The Asian Financial Crisis 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. Under SO2, streamlined and competitive procurement guidelines and corollary legislative changes are being developed. Recognizing the political and institutional roadblocks that could thwart these proposed reforms, the Mission has cultivated NGO partners taking an interest in this area, such as Transparency International's local chapter and local business organizations. Under AERA, the Mission is supporting these NGOs as they advocate for credible reform in concert with our technical assistance.

**Planned Changes to SO2 in the New Strategy Period.** SO2 will continue its high priority economic-policy assistance program through 2001, i.e., through the critical early and middle years of the Estrada Administration and the recovery from the Asian Financial Crisis. This program is fully funded at present, and its implementation will proceed to the extent that these funds continue to be available.

However, in response to the lessons of the Asian Financial Crisis, the Mission needs to strengthen and deepen SO2 activities, particularly in improving economic governance, promoting transparency and combating corruption. Two approaches will be followed. First, the program will intensify existing governance activities dealing with financial market regulatory reform, combating corruption (including a major emphasis on procurement reform, adjudication of property and contract related disputes) and greater transparency and efficiency in the operation of local government. Second, over the course of FY 2000 the economic governance elements of the Mission's democracy portfolio will be integrated over the course of FY 2000 into the economic governance portfolio within SO2. In addition, SO2 will take on responsibility for managing the completion of Mission's Governance and Local Democracy (GOLD) project in early FY 2001.

This new integrated structure will be slimmed down by the end of FY 2001, primarily by cutting back program elements that support institutional strengthening for policy implementation. This approach will permit USAID to continue to assist the Philippines in areas like policy design, legislative drafting, advocacy, and regulatory design.

The injection of \$2 million in FY 2002, \$3 million in FY 2003 and \$3 million in 2004 will permit the Mission to continue assistance through the beginning of the next presidential administration (which takes office in 2004) in the following areas: 1) infrastructure privatization and regulation policy; 2) agricultural and land policy; 3) anti-corruption and pro-competition policy; 4) international trade and investment policy; 5) capital-market privatization and regulation; and 6) commercial law reform.

USAID will also sustain the flexible, responsive delivery mechanisms it has developed as a result of reengineering. These mechanisms allow the economic policy program to respond to high priority requests, reallocate, shrink, and grow, with a minimum of bureaucratic red tape.

However, the planned funding levels for FY 2002-2004 represent a reduction from the current program, and as a result, the economic-policy program will not be able to provide some types of institutional assistance that have been productive in the past and that could be considered with higher funding levels. Examples of the types of assistance that are affected by the new funding levels are: 1) the amount of funding for grants to progressive business organizations such as the Philippine Exporters Confederation (Philexport, for trade liberalization) and the Financial Executives Association (FINEX, for capital-market development); 2) long-term technical assistance teams, such as the team from the U.S. Internal Revenue Service that USAID formerly financed for the Bureau of Internal Revenue; and 3) organizational, training, and computer systems assistance of the type previously furnished to the Securities and Exchange Commission and the Bureau of the Treasury. However, USAID will remain available to provide analytical and policy assistance in these areas. Policy assistance, along with institution-strengthening assistance from other donors, will help ensure that past achievements are sustained.

By the end of the strategy period in FY 2004, SO2 expects to achieve the following:

- passage of economic reform legislation in areas such as taxation in the financial sector, local government finance, pensions, stock exchange regulation, trade policies, inter-island shipping, public procurement, and corporate governance;
- strengthening economic governance in key government institutions including the Bureau of Internal Revenue, the Department of Budget and Management, the Central Bank, the Securities and Exchange Commission, the Department of Finance, and the Department of Agriculture;
- improved and more transparent fiscal management, specifically in customs administration, tax administration, budgeting, management of debt and contingent liabilities, government procurement, and local government finance;
- rationalized financial-sector regulation and deepened capital markets, specifically in banking, equity markets, long-term savings institutions, and social lending programs; and
- reformed regulation, liberalization, market-friendly management, and increased private participation in an expanding number of sectors, including telecommunications and information technology, financial services, transportation services (air, sea, and land), road maintenance, water and sewerage, energy, agriculture and food security.

**Integration of Democracy Activities.** SO2 will take over responsibility for achieving SO6's IR3: "More transparent, accountable and responsive government institutions." Existing efforts will be redirected to achieve the goal of SO2's IR3: "Economic governance improved." In doing so it will take advantage and upon the skills possessed by the DG team in advocacy and local governance. In addition, SO2 will take over responsibility for managing SO6's Governance and Local Democracy (GOLD) project until its completion in early FY 2001. A number of SO6 staff members will be transferred from SO6 to work on these activities.

### **III.C. SO3: "Reduced Fertility and Improved Mother and Child Health" and SpO1 "Threat of HIV/AIDS and Other Selected Infectious Diseases Reduced."**

USAID is the predominant donor in the population sector in the Philippines, taking a commanding and respected leadership role in the supply of contraceptives and the promotion and delivery of family planning services. Population growth still represents a significant problem in the Philippines, and at present rates, the country's population will double within thirty years. Unless this rapid growth rate is checked, progress in revitalizing the economy will necessarily be limited. Similarly, rapid population growth promises to place the Philippines already fragile environment under growing pressure.

A healthy labor force is also a precondition for sustained economic growth, and USAID has displayed authoritative and innovative leadership in improving maternal and child health and preventing the spread of HIV/AIDS. Unlike Thailand and Cambodia, the Philippines has not experienced an HIV/AIDS epidemic. The national prevention and control program, for which USAID is the primary donor, is a major factor accounting for this situation. USAID, through its new infectious diseases program, is poised to play a similar role in preventing and controlling tuberculosis, dengue fever, and malaria.

Experience has shown that the public sector health service delivery model has not produced the desired results, and for that reason, the focus of USAID's population program over the next five years will be on building the capacity of the private sector and local governments to deliver family planning and health services. USAID has helped establish the FriendlyCare Foundation Inc. (FCFI), a private-sector foundation that will provide financially sustainable, demand-driven family planning and health services to lower-middle and middle-income groups.

USAID's public-sector population and health activities have been redirected toward the poorest sector of the population and will concentrate on service delivery at the local level. Building upon a Department of Health (DOH) reform initiative, SO3 will also focus on developing models for district health administration, the local procurement and distribution of drugs, and an expanded social insurance system. SpO1 will focus on surveillance and education activities at the local level for the prevention and control of HIV/AIDS and infectious diseases. A more detailed discussion of USAID's planned activities under SO3 and SpO1 during the strategy period follows.

**Strategic Objective 3.** SO3 has two principal components: 1) the effort to foster the development and insure the sustainability of the FriendlyCare Foundation, Inc. (FCFI); and 2) the redirection and implementation of the Local Government Performance Program and implementation of the Department of Health Reform Initiative.

The FriendlyCare Foundation, Inc. Two-thirds of Filipinos who use public-sector family planning and mother and child health (MCH) services are willing and able to pay for those services. However, most use free government services because private sector services at full market price are simply too expensive for them and other, more reasonably priced services are not available. In August 1999, to reach the 70% of Filipinos who can afford to pay nominal prices, USAID awarded a start-up grant to FriendlyCare Foundation, Inc., a non-profit organization that will supply family planning and family health products and services to this large and important market segment. Modeled after PROFAMILIA in Colombia, FCFI takes a business-oriented, demand-driven approach to meet family planning and primary health requirements of Filipinos. It will establish Area Service Centers that offer a full range of "branded" family planning, reproductive health, and primary health products and services. FCFI will affiliate with NGOs and private sector physicians, nurses and midwives. Community family planning and health workers will serve as referral agents to the affiliated facilities. The entire FCFI network will be promoted through aggressive marketing and communications campaigns. Although FCFI is a wholly private-sector organization, both the Department of Health and the National Economic Development Authority strongly endorse its approach and objectives.

It is anticipated that FriendlyCare will become fully operational within five years. To that end, FCFI will establish 16 comprehensive Area Service Centers and 300-400 affiliated or franchised clinics of private physicians, nurses and midwives nationwide by the end of FY 2004. USAID's technical assistance and financial backing is essential to help ensure FCFI's success. Nonetheless, to encourage self-sufficiency, USAID's financial support of FCFI will wane over the course of the five years as the organization begins to cover its own operating expenses and attract long-term financial support from local and international organizations.

Once FCFI proves its institutional and financial viability, USAID will explore the feasibility of establishing an endowment for the organization – much like USAID helped establish an endowment for PROFAMILIA in Colombia. An endowment will provide FCFI with a steady and assured source of resources without the need for direct USAID grants. Given the experience of PROFAMILIA and other private-sector organizations providing subsidized family planning and family health care, USAID may need to provide FriendlyCare with limited technical assistance and contraceptive supplies through 2010. An initial assessment of FCFI's viability will take place in FY 2002.

The Local Government Performance Program and the Health Reform Initiative. With the establishment of FCFI, the public sector family planning and MCH program will focus on low-income Filipinos (specifically, the poorest 30%). USAID assistance will seek to maximize the effectiveness of existing public sector activities by redirecting technical assistance and grants provided under the existing Local Government Performance Program (LPP) from the provincial level to municipalities where family planning and health services are planned, managed, and funded. LPP has started to implement a municipality-based "Matching Grants Program" (MGP) with counterpart contributions from the municipalities. By 2004, all 67 municipalities with over 100,000 population will receive MGP assistance.

USAID is supporting the DOH's Health Reform Initiative by developing models of social health insurance, district health administration, and drug distribution and procurement. The Department will then use these models for nationwide rollout. These reform activities are vital if the Philippines is to possess a high quality and sustainable public health system.

USAID will support LPP and the Health Reform Initiative through FY 2004, with the DOH and local governments progressively shouldering program costs. By FY 2004, it is anticipated that 60-70% of the local governments will shoulder the full cost of their programs. During FY 2003, USAID will conduct an external assessment of the LPP to ascertain if an extension is needed to assist the 30-40% of the remaining local government units to reach self-sufficiency.

**Special Objective 1.** USAID will continue its highly successful HIV/AIDS surveillance and education activities among high-risk behavior populations in eight large cities. To date, HIV infection among these populations has remained below 3%, indicating a rate of far less than 1% among the general population.

USAID will also work with the DOH to establish surveillance and community mobilization systems covering three infectious diseases: tuberculosis, dengue fever, and malaria. This assistance will be provided by the U.S. Centers for Disease Control (CDC). Tuberculosis, including multi-drug resistant strains of the disease, is growing rapidly and the Philippines already has one of the highest prevalence rates of tuberculosis in the world. Dengue cases have risen rapidly during recent years and now represent a major health threat, particularly to children. Malaria is also resurgent in certain areas of the country. The DOH is in the process of establishing its own CDC type of organization, the Philippines Institute of Health and Development (PIHD) and USAID's funding will end as PIHD becomes fully operational.

By 2002, the eight participating cities will fund HIV/AIDS surveillance and education activities and the HIV/AIDS surveillance will be merged into the wider infectious diseases surveillance system. At this point, USAID funding and technical will cease and UNAIDS will assume these functions. USAID will also encourage the Government of Japan to supply drugs, medical and laboratory equipment, and other supporting equipment to complement USAID's technical assistance for HIV/AIDS and infectious disease activities. All infectious disease surveillance sites will be established and functioning by 2002. USAID will conduct an assessment of its infectious disease activities in 2003 that will make recommendations about future funding.

**Integration of Democracy Activities.** The SO3-SpO1 Team will develop the capacity of LGUs to support the effective and efficient delivery of primary health care services, including services to prevent and control the transmission of HIV/AIDS and selected infectious diseases. Collaborative health and democracy efforts will take place in the four-five model LGUs identified for the Department of Health reform and also the city sites already established for HIV/AIDS and infectious disease prevention and control. Objectives are as follows:

- strengthen community participation in the decision-making for health priorities and resource allocation, thereby promoting the sustainability of local health care programs;
- increase the flow of health information and data to local government officials to inform their decision-making;
- improve communications between local government officials and constituents on health issues; and
- promote public sector-private sector partnerships in the delivery of health services.

SO3 and SpO1 colleagues will work with their GOLD and LPP counterparts to use methodologies, such as Technologies of Participation and Rapid Field Assessments, to achieve these objectives. They will provide assistance to government leagues, local chief executives, local development and health boards, and special forums to promote policy dialogue and empirically-based plans, activities, and budgets that support demand-driven health priorities and needs. The progress of these initiatives will be tracked through health delivery indicators (e.g. percent increase in LGU expenditures for primary health care services) and governance indicators (e.g. the establishment of local forums to prioritize health needs). As progress is made, the results will be disseminated through periodic national-level meetings of government leagues.

**Merger of SO3 and SpO1.** The reorganization of the Department of Health through PIHD calls for the establishment of a new Institute of Disease Prevention and a new Institute for Family Health and Primary Care. Once these institutes have been established and are functional, we will conduct an in-house assessment about the feasibility of merging SO3 and SpO1. This assessment will occur in 2001.

#### **III.D. Consolidation of SO4: “Enhanced Management of Renewable Natural Resources” and SO5: “Reduced Emissions of Greenhouse Gases.”**

USAID is the lead donor working in the environment in the Philippines, most responsible for developing powerful new policies and models that have changed the lives of millions of Filipinos and the way the Philippines manages its biodiversity and resource base. GOP counterparts have stated publicly that they look to USAID to “open the doors for the DENR [Department of Environment and Natural Resources] and other donors to follow.” Despite declining resources USAID maintains its powerful ability to effect change. This is because USAID has a unique comparative advantage in promoting innovation and experimentation,

and in encouraging the GOP and other donors to support dissemination of new and better models to protect the environment, promote food security, and revitalize the economy.

**The New SO: “Environmental Resource Management Improved.”** The Environment Team plans to combine SO4 and SO5 in FY 2000 to enhance achievement of SO objectives. This makes sense both operationally (the two SO teams share office space and support personnel) and substantively, as global climate change is directly affected by the management of the country’s forests, coastal areas, and industrial sector. Global climate change is also believed to increase the frequency of weather extremes (El Nino and La Nina) and coral die-off (through coral bleaching), and its links to food security are therefore of real concern in the Philippines. This suggests good potential for development of more mass-based advocacy for global climate change mitigation efforts. At the same time the Philippines has literally millions of dollars set aside in an almost untapped watershed management fund, acquired through means of a one centavo surcharge on each kilowatt-hour of electricity consumed. Integration of SO4 and SO5 could lead to concrete actions to help access those funds and enhance both watershed management and the production of renewable energy.

Perhaps the most important reason for combining these SOs is to encourage the GOP to seriously focus on the relationships between forestry and GCC. The USG is most anxious to have G-77 countries like the Philippines include forestry/carbon sink options under the Clean Development Mechanism, and real integration of these two SOs would provide an excellent and continuing venue for such discussions. It would also help raise the visibility of the DENR on the Philippines' Inter-Agency Climate Change Committee (the body that defines GOP positions on all GCC issues), providing greater and badly needed weight to technical issues, thereby balancing and complementing the more political perspectives of the Philippines Department of Foreign Affairs. This could help reshape the Philippines' approach to these contentious issues and potentially provide a model for other G-77 countries.

Similarly, SO5’s technical assistance for energy efficiency and cleaner fuels meshes well with SO4’s industrial environmental management systems (EMS) program. SO5 activities to increase livelihood opportunities and spur economic growth through renewable energies are another fertile field for coordination. In fact, USAID-supported collaborative activities between the Philippine Department of Energy (PDOE), the lead GOP entity for SO5, and the Philippine Department of Environment and Natural Resources, the lead GOP entity for SO4, are already underway. Thus, merging SO4 and SO5 makes sense, as both focus on “improving resource management.” The new SO will have two IRs: 1) biodiversity conserved in selected critical watersheds; and 2) reduced growth in greenhouse gas emissions. Structuring the new SO with two distinct IRs should enable the Mission and USAID/W to carry out appropriate and effective performance monitoring and continue to track all our approved indicators for the SO5 program. It would also allow us to quickly disaggregate, as necessary, our obligations for GCC activities. Both solidly reflect global USG priorities for the environment, as well as top environmental priorities in the U.S. Embassy Mission Performance Plan.

SO4’s programs for community-based forestry and coastal resources management are conspicuous examples of USAID’s leadership in the Philippines, and are areas where the GOP and other donors, such as the World Bank and the Japanese, have followed. USAID is graduating its community-based forestry program at the end of FY 1999. This effort has been institutionalized in the DENR and last year government placed roughly twice as much forest land (more than 1 million hectares) under community based forest management agreements on its own as it has with direct USAID assistance.

The GOP has asked USAID to build on its knowledge and experience to develop the policies and tools needed for integrated watershed management (IWM), perhaps the country’s highest priority for biodiversity conservation and more responsible resource management. This represents a natural and incremental

evolution of USAID's program, and will build directly on our existing bilateral management structures. It will also bring greater substantive and geographic focus as we phase out of sectoral activities during the strategy period (including Coastal Resources Management, Industrial Initiatives for a Sustainable Environment, and our Environment and Natural Resources Accounting activities) and concentrate on integrating our activities in a limited number of critical watersheds. Planned activities are reviewed below.

**The New IR1: "Biodiversity Conserved in Selected Critical Watersheds."** Recent research indicates that the Philippines has more biodiversity per unit area than any other country on earth, and leading international NGOs argue that it is perhaps the world's most urgent conservation priority. This biodiversity (e.g. coral reefs, forested watersheds) also provides the foundations of rural food security, and conservation, because of high population densities, must be seen in the context of rural economic activity. Integrated watershed management is therefore an essential component of the country's conservation efforts and no other donor is engaged effectively in this area. USAID's efforts will result in measurable increases in biodiversity through expanded forest cover, improved efficiency of water use, and increased fish catch and coral reef cover. Specific numerical targets will be developed in collaboration with USAID/W during the design of the activity in FY 2000.

Institutionalization of IWM will be achieved by focusing the Mission's existing biodiversity conservation efforts on IWM, and by: 1) supporting appropriate policy change, including development of market-based instruments for more efficient resource use; 2) institutionalizing natural resources accounting and cost-benefits analysis as decision-making tools at the watershed level by incorporating lessons learned from our Environment and Natural Resources Accounting Program; and 3) developing an independent "environmental broker" function to mediate between stakeholder groups during conflicts over watershed resources, thereby helping LGUs optimally allocate resources. Three watersheds will be selected for integrated action, based on criteria that includes: high biodiversity value; high economic value; opportunities to deliberately build on other successful USAID activities, including current activities being undertaken by other Mission SOs; presence of progressive LGUs and other local players (here benefiting from our new SO6 resources); opportunities to leverage local government unit and other donor funding to support sustainability; and serious (but not imminent) potential for resource use conflict.

While this will be path-breaking development work, almost all the mechanisms needed to accomplish it are in place and no new funds are required for FY 2000. However, \$5 million in new funding will be needed through FY 2004 to achieve these results and maintain USAID's development leadership in the environment. New tools will be ready by FY 2002 and national policy change will be achieved by FY 2004, laying the groundwork for nationwide implementation and sustainability.

Thanks to technical assistance provided by USAID, the GOP has recently expressed interest negotiating with the U.S. Treasury to develop a Tropical Forestry Conservation Act program. This would constitute a powerful compliment to our IWM activities, improving biodiversity conservation and, though the debt-relief provisions of the Act, would also support the country's transition to sustainable economic growth.

The Mission will also complete its successful Coastal Resources Management program during the strategy period. The Philippines shares the world's richest marine biological diversity (dubbed the "coral triangle") and thanks to USAID, the DENR and the country's most senior policy makers (including President Estrada) are now focusing far greater attention on marine resource management. This issue is also becoming increasingly visible in a regional security context, and has led to recent tensions between the Philippines and both Malaysia and China over the management of migratory marine species. The local institutional context is still in great flux however, and USAID's transitional support will be critical to consolidate gains and increase understanding at the international, national and local levels.

All implementing mechanisms and most funding needed to accomplish this are in place, although \$1 million in new funding will be needed through FY 2002 to: 1) establish nationwide adoption of Coastal Zone Resource Program (CRMP) best practices and achieve the goal of placing 3,000 kilometers of coastline (equivalent to almost twice the coastline of California) under improved management; 2) increase support from other donors for CRMP activities; and 3) better document the program's growing impacts on biodiversity conservation and food security. Significant resources from the ADB, the World Bank and Japan are already being leveraged to disseminate USAID-supported CRMP models, thus insuring sustainability. This activity will graduate by FY 2002.

Similarly, the Mission's efforts to institutionalize industrial environmental management systems (EMS) and voluntary compliance will be consolidated and made sustainable by FY 2002. Local newspapers report almost daily on the costs of industrial pollution on human health and biodiversity. USAID's approach is to promote voluntary compliance with industrial environmental standards, a critical and more cost-effective complement to the GOP's "command-and-control" techniques. The EMS certification and implementation process must be affordable and adaptable to the Philippine situation to encourage better environmental performance from small and medium industries. The Mission's strategic and sustained in-country effort will institutionalize the new approach. USAID is uniquely positioned to bring this activity to a successful conclusion given its close association with the key players (e.g., the Department of Environment and Natural Resources, the Department of Trade and Industry, and NGOs); its high credibility with the business community; and its ability to develop linkages with CRMP and US-AEP activities. Once institutionalized, and with 400 factories reducing pollution levels by at least 20% , the Mission will cease support in this area, as these efforts will be sustained by the private sector.

Implementing mechanisms needed to complete this on-going program are already in place, although approximately \$1 million in additional funding will be required through FY 2002 when this activity will end. The proposed funding level is \$4 million less than planned. While this will require reducing the target number of businesses with ISO 14000 certification from 200 to 100, the Environment team is convinced that the primary objective, the institutionalization of EMS and voluntary compliance, can still be achieved with this level of support.

**The New IR2: "Reduced Growth of Greenhouse Gas Emissions."** The SO5 team has played a leadership role in reshaping the Philippines' approach to global climate change (GCC). USAID's comparative advantage in GCC continues to be its ability to provide leadership and innovation in developing, promoting and implementing "win/win" solutions to reducing greenhouse gases. USAID is looked to as a key source of expert technical assistance not only by the GOP, but also by the ADB (USAID is helping to coordinate its \$300 million power sector loan) and World Bank (which is increasingly interested in our experiences with renewable energy). Both multilateral banks have large loan portfolios, but few resources to develop new models for programming loan funds. USAID has also established an effective network that provides excellent access to key decision-makers of all stakeholder groups.

USAID efforts have helped the Philippine Department of Energy recognize that promoting clean fuels, energy efficiency and an improved policy environment will enhance quality of life through better economic performance, increase global competitiveness, and support a cleaner, more productive environment. However, the steps necessary to promote positive action on global climate change continue to be contentious, and USAID will need to work steadily to enhance awareness and foster change among key stakeholder groups.

USAID will pursue two major milestones in support of improved energy sector performance, and proposes a third (should continued GCC resources be made available), aimed at reducing GCC emissions from the

transport sector. Achievement of these milestones will require approximately \$16 million through FY 2004, with \$12 million anticipated through FY 2002 (as per the guidance from State 133166 and 133167).

- Milestone 1: Passage and implementation of legislation and policy framework supportive of power sector restructuring, energy efficiency and clean fuels. The Philippine power sector needs major reform, and building the support and political will needed to pass necessary laws will require time and careful stakeholder management. Accordingly, USAID has decided to bolster its support for policy change and power sector restructuring, and will shift additional resources to this area. USAID is supporting passage of the Omnibus Power Bill to restructure and privatize the sector, taking the lead with the PDOE, while SO2's AGILE is working on the broader issues of privatization with the Department of Finance. Power sector restructuring is critical to enhance efficiency and reduce environmentally harmful waste, and will lead to lower energy prices thereby supporting revitalization of the economy. SO5 is also supporting development of a Renewable Energy Bill to encourage widespread use of these clean technologies. Related policy work is supporting development of the natural gas sector (natural gas emits only half as much carbon as coal).
- Milestone 2: Renewable Energy Established in Rural Areas. Expanding use of renewable energy is a top priority for the GOP, as President Estrada has pledged to bring electricity to 90% of the country's 42,000 barangays as a key element of national economic development. Most unserved areas are far from the national grid, and renewables can be the best option from both an environmental and economic perspective. Inappropriate policies, as well as market and technical risks, have made private investors extremely cautious in investing in renewable energy. Nevertheless, the only way renewables and their environmental benefits can become firmly established in the Philippines is with active private sector participation. USAID has initiated technical analysis, assistance and training to help overcome these barriers, although more work is needed. On-going collaboration with the World Bank will also play an important role in informing development of a renewable energy loan program (anticipated for FY 2001). Coordination with the UNDP, Land Bank and Development Bank is also occurring.
- Milestone 3 (proposed): USAID intends to graduate part of its energy sector activities by the end of the strategy period. If, however, the Mission continues to receive earmarked funds for green house gas reduction it will take on the challenge of reducing the Philippine transportation sector's contribution to global climate change. Recent analysis indicates that the Philippine transportation sector now produces as much atmospheric carbon as the power sector. Furthermore, this issue is directly associated with the deteriorating quality of life in urban areas. Fortunately, the GOP and ADB have recently signed an agreement to implement the \$300 million Metropolitan Manila Air Quality Improvement Program, although the loan provides only limited funding for policy formulation, information dissemination, and alternative fuel development. The GOP has a demonstration vehicle using compressed natural gas (CNG) that is being tested for potential use in government fleets. USAID could accelerate adoption of alternate fuels like CNG by providing TA to identify the sources of alternate fuels, necessary infrastructure and potential end-users in the Metro Manila area. These are all areas where USAID would have much to offer, including on-going work with improved policies and legislation, capacity building and information dissemination through the Global Climate Change Center. Given the timing of the ADB loan and the substantial associated capital improvements that will be needed, significant USAID work in the mobile emissions would not begin before FY 2001. USAID's assistance would be targeted to support improved policies (e.g. market-based instruments) and encourage the use of alternative GCC-friendly fuels, It is anticipated that this new activity would be completed and achieved by FY 2004.

To help complete and institutionalize the Mission's efforts to enhance energy efficiency, USAID is playing a leadership role in organizing a "Green Establishments Association" to promote use of energy efficient

designs (including retrofits) in commercial and public buildings. These will provide models for use nationwide, thus improving economic performance while reducing GHGs. The Green Establishment Association will be fully operational by FY 2002 when USAID assistance in this area will end.

SO4's existing pipeline is approximately \$16 million at the end of FY 1999, and SO5's is approximately \$4 million. The cost of achieving the first IR for the new SO is approximately \$23.5 million. This leaves an unfunded balance of \$7.5 million through FY 2004, \$6.5 million (all but the EMS work) which could be used to meet possible biodiversity earmarks. Neither the GOP nor we expect any other donors to take on the specific roles identified herein for USAID, and in fact the DENR's budget for 1999 was reduced by 30%. The IR 2 milestones will require approximately \$12 million in new funding through FY 2002 and an additional \$4 million through FY 2004, and all these funds can be used to meet GCC earmarks.

**Integration of Democracy Activities.** SO6 advocacy and participation capacities and skills will also be utilized in a variety of other ways. These capacities will be woven into the SO's coastal zone and watershed management and biodiversity conservation activities in an effort to enhance activity sustainability, improve communications, change policies and resolve disputes in the areas where the SO team is working. In the case of industrial pollution activities, SO6 advocacy and participation capacities will be drawn upon to strengthen linkages and resource sharing between those involved in efforts to clean up industrial pollution (i.e., "brown" sector) and those involved in the "green" and "blue" sectors of the environmental movement in the Philippines.

#### **Champions of Change**

The Mission's Democracy, Energy and Economic Growth teams have recently collaboratively developed a public information strategy that will foster a political environment conducive to the passage of a landmark bill to restructure and privatize the power sector. Champions of Change in the NGO community, representing consumers, the biggest and most important stakeholder in the new bill, will receive technical training on substantive issues in the legislation. It is anticipated that the Champions of Change will take the lead in advocating the passage of this complex yet crucial bill that promises to promote economic growth and enhance the environment and well being of the Filipino people. The Champions of Change activity will ensure transparency in the drafting of the bill and implementation of its provisions, thus resulting in a competitive and efficient market that encourages new investment.

#### **III.E Integration of SO6 Democracy Skills into the Mission's Other SOs.**

The Philippines is one of USAID's democracy success stories and USAID professionals believe now is the time to shift from supporting advocacy and participation activities as "end" to one that integrates these activities as a "means" across the entire Mission portfolio. Activities, approaches, and skills formerly employed to achieve SO6 will be integrated into the economic growth, environmental management, and health/population SOs. A reduced set of residual activities not directly transferred to the remaining SOs or other donors will be managed by the Mission's program office until their respective end dates in 2000 and 2001.

The Mission intends to move proactively to ensure that DG approaches and results become sustainable and fully integrated mechanisms to achieve SO goals. The following are some of the tools that the Mission may use to achieve this goal: 1) period DG-oriented program reviews; 2) inclusion of a DG focus in the regular semi-annual project reviews; 3) inclusion of democracy IRs or sub-IRs under each SO; and 4) holding one or more USDHs and FSNs accountable for the achievement of DG results through existing formal performance mechanisms.

The Mission intend to replace only one of the two current USDH democracy positions and that individual will lead the IR3 team of SO2. SO6 FSNs and their essential skills in advocacy, participation, and grant/contract management will be transferred to the remaining SO teams and the program office. Plans for the transition are already being made. The SO6 team has initiated intensive inter-SO dialogues on strategy redesign, program integration, and skill-needs analyses. The Mission intends to complete the SO6 integration process within three months after the approval of the revised strategy.

All Mission SO teams recognize the potential value of SO6 advocacy and participation skills in implementing and enhancing the sustainability of their respective programs. Advocacy, coalition building, participatory planning, and work with leagues of local government can make important contributions to the achievement of the entire Mission portfolio.

Examples of integrating SO6 skills and approaches include:

- Strategic Objective 1: Business support organizations such as the Mindanao Business Council, chambers of commerce, producers' organizations, cooperatives and NGOs are vital contributors to the achievement of SO1. Skills transferred from SO6 will help these organizations become self-sustaining and continue their work in policy analysis/advocacy, investment promotion, and the provision of business advisory services after SO1 ends .
- Strategic Objective 2: As noted earlier SO2 will take over responsibility for achieving SO6's IR3: "more transparent, accountable, and responsive national government institutions." As part of this consolidation staff members from SO6 will be transferred to SO2. In addition, SO2 will accept responsibility for managing the completion of SO6's Governance and Local Democracy (GOLD) project.
- Strategic Objective 3. The Local Government Performance Program is expected to accelerate application of participatory planning processes to help local governments prioritize health spending. The national government's health reform agenda proposes to reestablish district health systems. Participatory planning will help stronger provincial and municipal health boards to set program priorities based on constituent input. With lessons learned from SO6, such programs will become more efficient and effective. In addition, the transferred members of the SO6 team will help SO3 to work with the League of Provinces, which is taking the lead in advocating on behalf of health reforms.
- Special Objective 1. To make the disease tracking and reporting systems more effective, SpO1 will broaden the geographic coverage of its pilot efforts. SO6's successful inter-LGU cooperation experiences will help eight cities and municipalities adopt monitoring and public education strategies.

**Achievement of Existing SO6 Program Results.** Under the revised strategy, SO6 will cease to exist over the course of the next three months. A pared down set of activities will be completed in accordance with existing end dates, so that the portfolio will be mostly closed out by the end of 2000. SO results data will continue to be collected and will be reported per instructions from ANE and PPC.

USAID has made significant investments in the DG program in the Philippines and the DG transition strategy will pursue three objectives. First, to ensure sustainability, the Mission will implement first-of-their-kind sustainability activities to preserve the gains of the program, and work to preclude the backsliding that can plague nascent democracies. The Mission will rely almost entirely on domestic momentum to carry its dramatically successful local governance program beyond simply effective pilot areas, and will help civil society become financially and technically self-sustaining. Second, the Mission will seek to maximize the lessons that have been learned under the DG program. This education campaign will be aimed at both internal and external targets and will include our Philippine counterparts, Mission staff and others working

on the achievement of the remaining Mission SOs, and USAID/Washington. And third, as the SO6 transition proceeds, the Mission it will seek to inform its DG partners and others in the Philippines that the new approach does not represent a diminution in the importance that USAID places on democracy in the Philippines, but rather represents a shift in the way that the Mission is pursuing its democracy objectives.

The GOLD project's strategy will focus on building institutional bases for long-term innovation and sharing of development models. The 1997 mid-term assessment by the Research Triangle Institute of North Carolina emphasized the critical need for sustainability and replicability of gains and innovations achieved under the project. To achieve these objectives, the Mission has introduced a dramatic increase in the cost-sharing requirement for local governments as well as an innovative voucher system that forces local governments to prioritize the limited technical assistance available. In addition, financial assistance will be provided to the leagues of local governments on providing services to their member LGUs, advocating for policy reforms, and legislative tracking. At the completion of the GOLD project, the leagues will provide the long-term political force and guide technical and administrative sharing. In addition, six Centers for Local Governance, housed and supported by prominent universities (as well as service fees), will ensure that the technical assistance that LGUs need continues to remain available at relatively low cost and with reliable quality.

In civil society, the Mission will cap its decades-long support to NGOs and people's organizations by focusing a portion of its remaining resources on helping NGOs engaged in activities that complement the revised strategy to become self-sustaining. Philanthropic impulses among all classes of Filipinos will be tapped and cultivated. In addition efforts will be made to convey technical knowledge related to NGO development to civil society leadership, particularly those who reside outside Manila and do not belong to the privileged classes.

### **III.F. Program Plans if Funding Above Projected Levels Becomes Available**

In strategy revision guidance received by the Mission, the ANE Bureau requested the Mission to briefly discuss how it might modify its program if an additional discretionary funds became available in FY 2000, FY 2001 and FY 2002.

While the Mission expects to take significant steps in revitalizing the Philippine economy and transform governance to accelerate sustainable growth, development needs are likely to remain very high by regional standards. By the end of the strategy period, the country will still be mid-stream in its demographic transition, its response to environmental challenges, and its development of the institutions and policies for sound economic governance. Many of the counterparts that USAID has worked with will be prepared to expand their programs with additional support.

The Mission would propose that, if funds were available above the levels projected in the ANE Bureau's guidance, they be directed into areas that have emerged as priorities for the Philippines and that are well integrated with the Mission's proposed program. Leading examples would include new activities to: 1) combat corruption, 2) promote better planning and administrative oversight in the design and provision of environmental infrastructure, and 3) strengthen the responsiveness and efficiency of public sector regulatory institutions.

- Institutionalization of Anti-Corruption Policies and Practices. Opportunities to work directly against longstanding vulnerabilities to corruption have expanded as a result of the impact of the Asian Financial Crisis. With additional funding, the Mission would expand its technical assistance and training in areas relevant to managing the discretion and transparency of governmental functions, particularly in: public procurement, tax and customs administration, and resolution of legal disputes.

An intensive multi-pronged technical assistance and training program will be undertaken to institutionalize major anti-corruption policies and practices. This will entail the full implementation of key governance reform measures designed to circumscribe the discretion which public officials exercise over the allocation of financial resources; and the promulgation of key institutional reforms designed to improve the transparency and efficiency with which core administrative and judicial oversight functions are carried out. The prioritized areas of focus are:

- 1) **Procurement Reform.** USAID is currently working with the GOP in the design and legislative approval of major procurement law reforms. The additional assistance would support effective administrative implementation of the major procedural reforms in procurement practices in selected GOP agencies.
  - 2) **Tax Administration.** USAID will provide intensive technical and training support designed to effectively implement national level improvements in key tax administration practices (including audit, collections, and taxpayer information computerization measures) that are currently being developed.
  - 3) **Dispute Resolution.** USAID will provide support for the strengthening of fair and cost-efficient institutional mechanisms for resolving legal conflicts. This could in turn involve the further development and improvement of the existing nascent (and flawed) alternative dispute resolution system; and also reform of key judicial administration practices whose current operation inhibits speed and transparency in the judicial decision-making process.
- Effective Provision of Key Environmental Infrastructure Services. Decentralized and economically sound provision of infrastructure services is a long-term challenge for the Philippines, especially for local governments. In addition to power and roads, environmental infrastructure like solid waste management, water, and sanitation pose difficult problems for provinces and municipalities all over the country. Some progress has been made in developing better policies and procedures relative to management of project design, financing, bidding and award, and regulation, especially with respect to private participation and use of market mechanisms. Limited management capacity in local governments makes implementation of these procedures a continuing challenge. Expanded U.S. assistance can make a substantial contribution to performance in the coming years, as well as establishing momentum for longer-term decentralization of public services.
  - Regulatory Restructuring. Equitable growth in the Philippines continues to depend on the elimination of tendencies toward over-regulation and favoritism in the GOP's approach to management of sectors such as energy, telecommunications, and various modes of transportation. The GOP has the goal of a regulatory oversight system that encourages wide private participation and market-oriented practices, but both private and public interests make this a complex and dynamic problem.

An intensive technical and training support program will be undertaken to improve the transparency and efficiency with which key selected public oversight institutions define and carry out their responsibilities. This will facilitate the full institutionalization of independent regulatory bodies in key sectors (eg. energy, telecommunications, civil aeronautics). It will entail the establishment of both appropriate regulatory policies and procedures and efficient organizational structure and management and staffing practices in selected public regulatory bodies. The ultimate goal will be to establish a regulatory oversight system in major infrastructure industries which both encourages market-oriented practices; and simultaneously promotes transparent and cost-effective protection of the public interest.

#### IV. PROGRAM FINANCIAL PLANS

From FY 1996-1998, USAID Philippines Development Assistance (DA) level averaged \$50.4 million. In FY 1999 DA levels dropped to \$27.5 million. However, \$6.5 million in Accelerated Economic Recovery in Asia (AERA) funds were provided to help the Philippines recover from the regional financial crisis. The initiative focuses on addressing key weaknesses in the economic, governance and social systems.

Based on guidance from USAID Washington regarding our funding levels for FY 2000-2002, the Mission's financial plan is presented below in Table 1.

**Management of Mission Pipeline.** The Mission is making a concerted effort to effectively manage its pipeline. The pipeline totaled \$126 million at the end of FY 1998. It is anticipated (based on actual expenditures for the first three-quarters) that expenditures will total \$55 million in FY 1999, which will reduce the pipeline to approximately \$105.1 million. The FY 1999 expenditure figure represents a 37.5% increase expenditures over FY 1998 (\$40 million).

The Mission's approach to pipeline management was revised in June 1999, based on an anticipated reduction in overall funding as well as a reduction in the availability of discretionary funding. This revised approach has led to a slight moderation in our spending rates and a shift in expenditure patterns in response to the planned expedited completion of successful activities and the concentration of remaining resources on the most crucial elements of the strategy. The Mission expect that spending at an accelerated pace will continue through the end of FY 2001, at which point the Mission's estimated pipeline will be in line with Agency targets.

**Table 1: Planned Program Budget** (in US\$ million)

	Est. FY 99 Pipe- line	Est. FY 00 Pipe- line	OYB FY00	OYB FY01	OYB FY02	OYB FY03	OYB FY04	FY99 Pipeline+ FY00-04 OYB
SO1: Mindanao	16.3	9.8	2.5	*				18.8
SO2: Economic Policy**	15.0	9.7	1.5	1.5	2.0	3.0	3.0	26.0
SO3: Population & Health	29.5	26.8	18.0	18.0	18.0	12.0	12.0	107.5
Sp01: HIV and Infec. Dis.	5.7	6.1	4.0	4.0	4.0	2.0	2.0	21.7
SO4: Intg. Watershed Mngt***	15.9	5.8	0.0	2.5	2.0	2.0	1.0	23.4
SO5: Energy	5.6	3.1	4.0	4.0	4.0	2.0	2.0	21.6

SO6: Demo. & Governance	10.6	1.9	0					10.6
AERA	6.5	7.5	5.0	2.0	0.0	--	--	13.5
<b>Total</b>	<b>105.1</b>	<b>70.7</b>	<b>35.0</b>	<b>32.0</b>	<b>30.0</b>	<b>21.0</b>	<b>20.0</b>	<b>243.1</b>

\* In FY 2001, SO1 ELAP, GEM, and MABS end, policy activities of the Mindanao portfolio will be folded into SO2. As SO1 is consolidated with SO2 in FY 2001 it is anticipated that up to \$1.5 million will be allocated for business service and micro-finance development programs in Mindanao and their successful completion.

\*\* In FY 2000, except for current civil society grants being closed out, which will be managed by PRM, remaining SO6 activities will be integrated/consolidated under other SOs, especially SO2. The \$1.5 million listed in FY 2000 will be used for SO6 activities being consolidated into SO2.

\*\*\* The new Integrated Watershed Management Program is expected to cost \$7.6 million, the remaining SO funds will be used to complete all other SO4 activities.

By the end of FY 2000 the Mission expects to have an overall pipeline of \$70.7 million. Pipeline levels will be close to or below one-year expenditure rates for the all of the Mission's continuing SOs except for SO2, SO3 and SpO1. (The completion of SO1 and SO6 makes it inevitable that their pipelines will be over the one-year expenditure rate because their future spending rates are zero.) SO2 remains over the one year level in FY 2000 because it seeking to provide a high level of policy assistance to the Estrada administration through the early and middle years of the Administration. The pipeline for SO3 remains high because the SO Team is shifting approximately half of the SO's resources into a new private sector organization (the FriendlyCare Foundation) and it is going to take time for this organization to build up its expenditure capacity. Similarly, under SpO1 the Team is working with a new Department of Health organization, the Philippine Institute of Disease Prevention, that must grow and mature before it can fully absorb the Mission's new infectious disease earmarks.

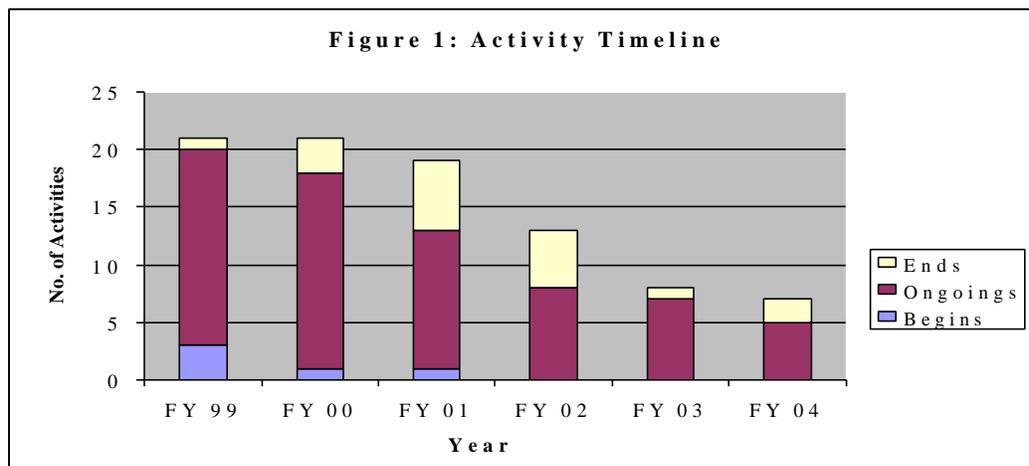
**Strategic Objective Expenditure Plans.** Plans for future expenditures including both pipeline and new OYB are presented on an SO by SO basis below.

- **Strategic Objective 1:** The Mission intends to allocate \$2.5 million in DA to SO1 in FY 2000 and up to \$1.5 million for Mindanao activities under the consolidated SO1/SO2 in FY 2001. This funding, along with the current pipeline, will allow the SO to: 1) finish its core activities in ELAP having provided assistance to a total of 11,000 ex-combatants; 2) strengthen and institutionalize MABS-M, helping 30-40 rural banks to develop the capacity to profitably service microenterprises and improve capability of the Rural Bankers Association of the Philippines; and 3) spatially concentrate core GEM activities, and transfer its key GEM functions to business support organizations BSOs. In FY 2001, all bilateral activities (ELAP, MABS-M, and GEM) as well as centrally funded activities (CUES, SWIFT/ELAP) and the Roxas Foundation grant will end. Remaining policy activities will be merged with SO2.
- **Strategic Objective 2.** The Mission intends to allocate \$1.5 million in DA in FY 2000, \$1.5 million in FY 2001, and \$2.0 million in FY 2002 to SO2. This funding, along with AERA and current pipeline, will allow the SO to: 1) continue its existing economic-policy assistance program through the critical early and middle years of the Estrada administration and recovery from the Asian Financial Crisis; 2) strengthen and deepen economic governance activities, particularly in the areas of transparency and corruption, through the integration and consolidation of SO6's activities, skills, and staff ; and 3) integrate relevant local governance activities into its portfolio and manage residual GOLD activities until its completion.

- **Strategic Objective 3.** The Mission intends to allocate \$18 million each year in FY 2000, FY 2001, and FY 2002 to SO3, as directed by USAID/W. This funding, along with the current pipeline, will allow the SO to: increase impact and sustainability of family planning and primary health care programs through the FriendlyCare Foundation and LPP.
- **Special Objective 1.** The Mission intends to allocate \$4 million each year in FY 2000, FY 2001, and FY 2002 to SpO1, as directed by USAID/W. This funding, along with the current pipeline, will allow the SpO to: 1) complete HIV/AIDs prevention and control activities and institutionalize its surveillance into wider infectious surveillance system; and 2) establish surveillance and community mobilization systems for tuberculosis, dengue fever, and malaria through a Center for Disease Control (CDC)-type of organization.
- **Strategic Objectives 4 and 5.** The Mission intends to allocate \$4 million to SO4 in FY 2000, \$6.5 million in FY 2001, and \$6.0 million in FY 2002. Of this amount, \$4 million per year will be for global climate change activities. This funding, along with the current pipeline, will allow the SO to: 1) phase out sectoral activities in environment including coastal (CRMP), forestry (FRMP), pollution control (EMS) and voluntary compliance in favor of a single integrated watershed management activity in a few selected key areas; 2) intensify restructuring and privatization efforts in the energy sector; 3) increase support for renewables; and 4) consider urban transport sector activities, if funding continues.
- **Strategic Objective 6.** The Mission will not allocate future funding to SO6. Current local governance activities and personnel will be consolidated and integrated into the economic, health, and environment portfolios in order to ensure that the best practices in advocacy and participation methods are used to help achieve the results of other SOs. Current civil society activities will be transferred to the Program office for completion as funding for existing grants end. Planned transparency and anti-corruption activities will be integrated into the economic governance component of SO2, as discussed above.

**Phase-out of Mission Activities.** The figure below illustrates the timing of Mission program phase-outs. The figure only takes into account the Mission’s major activities but analysis is representative of the consolidation that will be occurring across the entire Mission portfolio.

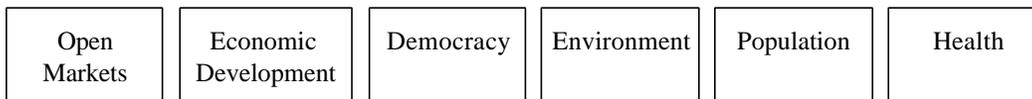
As can be seen from the figure, the Mission began two new activities in FY 1999, had 17 ongoing and ended one. In FY 2000 the Mission plans to begin one new activity, it will have 17 ongoing and it plans to end three. In FY 2001 the Mission will begin one new activity, it will have 12 ongoing and it plans to end six activities. After FY 2001 the trend is steadily downward: no new activities are slated to begin and five activities end in FY 2002, one ends in FY 2003 and two end in FY 2004. Thus at the end of the strategy period the Mission will only be managing five major activities.



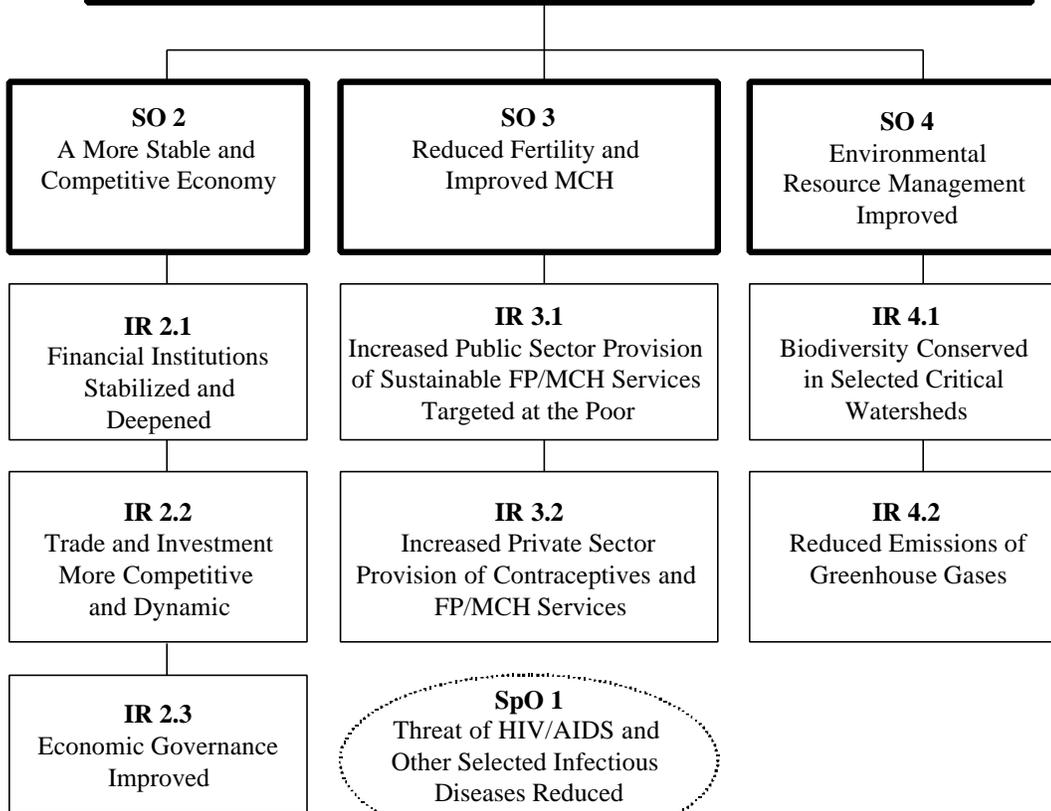
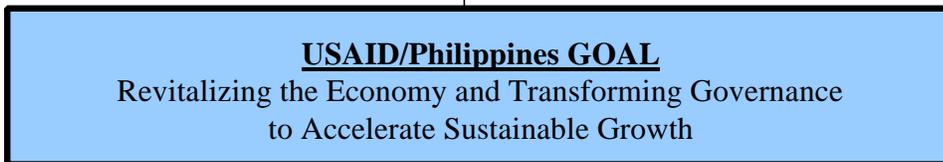
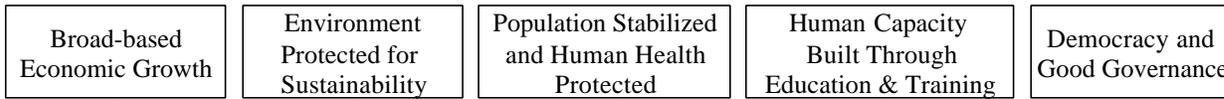
**Revised Results Framework .** The Mission intends to reduce the number of its SOs from the current six (plus two SpOs) to four by FY 2000 and three by the end of FY 2001. The figure presented on the next page shows the framework as of the end of FY 2000. The new framework includes the following changes: 1) the merger SO1 (Economic Growth/Mindanao) and SO2 (Economic Policy) into a single SO, renamed as SO2; 2) the merger of SO4 (Natural Resources Management) and SO5 (Global Climate Change) into a single SO, renamed as SO4; 3) the merger of SpO1 (HIV/AIDS) and SO3 (Family Planning and MCH) -- this merger is planned for FY 2001 and hence SpO1 appears as a dotted-line entry in the figure; 4) the transition of the Mission's Democracy and Governance SO through the adoption of specific advocacy and participation objectives the other Mission SOs; and 5) the elimination of SpO2 (Amerasians) which will be achieved as planned in July 2000.

**Program Results Framework**

**U.S. MISSION GOALS**



**AGENCY STRATEGIC GOALS**



## V. ANTICIPATED CHANGES IN MISSION STAFFING AND OE

Between FY 1999 and FY 2002 the USAID/Philippines operating expense budget, (which includes Peso Trust Funds but excludes ICASS charges) is expected to decline from \$3,872,000 to \$2,960,000 a decline of 24%. (If figures back to FY 1997 are used the size of the decline rises to 48%.) These estimates are based on projections of a 50/50 division between OE and Trust Funds over the period. Actual dollar OE needs may vary depending upon the outcome of the Mission's current discussions with the GOP on Trust Fund allocation.

During this same FY 1999 to FY 2002 period the number of U.S. direct hires will drop from 16 to 13 and the number of non-USDHs (including FSNs and USPSCs) will drop from 118 to 100. Total Mission staffing will decline from 134 to 113 over the FY 1999 to FY 2002 period. The Mission currently has seven USPSCs: two are OE funded (both are local hires); three are program funded (all are offshore hires) ; one is funded by the RIG (an offshore hire) and one is funded by USAID/Mongolia (a local hire).

The Mission anticipates that this level of funding and staffing will permit it to manage its program responsibly, maintain its regional support services and achieve the results described in our revised strategy. (See table below.)

**Table 2: Financial and Human Resource Needs for USAID Philippines  
FY 1999 – FY 2002**

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
<b>Financial Resources (Million \$)</b>						
Dollar OE	\$2.539	\$2.243	\$2.583	\$1.750	\$1.560	\$1.460
Trust Funds	\$3.200	\$2.800	\$1.289	\$1.500	\$1.500	\$1.500
Total OE *	\$5.739	\$5.043	\$3.872	\$3.250	\$3.060	\$2.960
ICASS(excluded from Total OE)	N/A	\$0.198	\$0.153	\$0.149	\$0.135	\$0.130
<b>USAID/Philippines Staffing **</b>						
USDH	20	18	16	14	13	13
FSN/USPSC	138	124	112	110	102	94
TOTAL	158	142	128	124	115	107

\* Total OE does not include ICASS charges.

\*\* Includes USAID/Philippines bilateral and regional support staffing funded out of USAID/Philippines OE and program funds but excludes: 1) USAID/Philippines staff funded by the RIG (5 in FY 1999) and USAID/Mongolia (1 in FY 1999). It also excludes the Office of the Regional Inspector General, Office of Foreign Disaster Assistance, US Asian Environmental Partnership and Office of Transition Initiatives staff (15 staff in FY 1999).

Given that the overall size of the Mission's workforce is expected to decline from 134 to 113 between FY 1999 and FY 2002 while the number of staff devoted to regional support is expected to remain constant at the equivalent of approximately 15 individuals, virtually all of this decline will come as a result of reductions in the size of the Mission's bilateral program. The Mission expects to be able to achieve these reductions without lay-offs, relying instead on: 1) previously announced reductions in our USDH workforce; 2) planned personal service contract completions among our USPSCs; and 3) a continuation of historical rates of attrition among our FSNs. We believe that this approach will help us keep morale high (thereby avoiding

problems that occurred during the early-mid 1990s) and help us to retain our highly qualified staff. (Between 1993 and 1998 Mission staff declined by 50%, largely as a result of a major decline in the Mission's operating year budget.)

To compensate for the loss of the USDHs and further reduce OE costs the Mission intends to delegate increased responsibilities to its USPSCs and FSNs. We will also shift funding of ten FSNs from OE trust funds to the bilateral program in FY 2000 to further reduce OE costs and to comply with recent funding guidance. (It is anticipated that project-funded FSNs will make up a disproportionate share of the Mission's FSN attrition between FY 1999 and FY 2002 and hence we expect the number of project funded FSNs to only increase from 19 to 22 during the period.)

**Regional Support Services.** Beginning in FY 1997 the Mission took over most of the support responsibilities of the Regional Support Mission for East Asia (RSM/EA) in Bangkok which was closed by the Agency in an effort to reduce its operating budget. As a result, the Mission now provides technical, financial, contracting, administrative and legal support services to various USAID presence and non-presence programs in the East and Southeast Asia region. The Mission supports programs and/or offices in Mongolia, Vietnam, Thailand, Cambodia, Laos and Japan. The Mission also supports the regional offices of the Regional Inspector General (RIG), the Office of Foreign Disaster Assistance (OFDA) and the US-Asia Environment Partnership (US-AEP), which are located in Manila and the OTI office in Mindanao.

As part of its original strategy development exercise and more recent strategy revision exercise the Mission undertook a detailed examination of its regional support activities. (The term "regional" as used here applies to the support of USAID programs in other countries, as well as support of non-bilateral USAID offices located in Manila, such as the RIG, OFDA, US-AEP and OTI.) As part of these exercises the Mission asked each staff member to determine the proportion of their time devoted to bilateral and regional activities. The exercises determined that during FY 1999, a total 51 Mission staff members devoted between 1% and 95% of their time to regional activities. Six of these individuals, including one USDH, two USPSCs and three FSNs devote 50% or more of their time to regional support. These percentages added up to the equivalent of 14.5 person years being devoted to regional support, with the remainder, equivalent to 125.5 person years, being devoted to the USAID/Philippines bilateral program.

The table below compares the division of regional and bilateral responsibilities among Mission staff in 1997, 1999 and 2002. The table shows that all of the anticipated reduction in total Manila staff, which is expected to drop from 155 in FY 1999 to 134 in FY 2002, will come from a decline in bilateral staffing, which is expected to decline from 125.5 to 104.5. The Mission strongly believes that the proposed staffing mix is cost effective and is in line with the projected program funding allocations during this period.

**Table 3: USAID/Philippines Bilateral and Regional Staffing 1997-2001**

	<b>1997</b>		<b>1999</b>		<b>2002</b>	
	<b>Positions %</b>		<b>Positions %</b>		<b>Positions %</b>	
<b>Bilateral Staffing</b>						
Mission Funded - OE	127	79%	95.4	64%	74.4	58%
Mission Funded - Program	23	14%	20	13%	20	16%
RIG Funded - OE	0	0	3.9	3%	3.9	3%
Other Sources - Program	0.2	0	0.2	0	0.2	0
<b>Total</b>	<b>150.2</b>	<b>93%</b>	<b>119.5</b>	<b>80%</b>	<b>98.5</b>	<b>78%</b>
<b>Regional Support Staffing*</b>						
Mission Funded - OE	8	5%	12.6	8%	12.6	10%
RIG Funded - OE	0	0	1.1	1%	1.1	1%
Other Sources - Program	0.8	1%	0.8	1%	0.8	1%
<b>Total</b>	<b>8.8</b>	<b>6%</b>	<b>14.5</b>	<b>9%</b>	<b>14.5</b>	<b>12%</b>
<b>RIG, OFDA, US-AEP and OTI Staff</b>	2	1%	15	10%	15	11%
<b>TOTAL</b>	<b>161</b>	<b>100%</b>	<b>149</b>	<b>100%</b>	<b>128</b>	<b>100%</b>

\* Numbers under this heading include those engaged in providing support to the RIG, OFDA, US-AEP and OTI staff as well as those engaged in providing support to USAID programs in other countries such as Mongolia, Thailand, Vietnam, Laos, etc.

**Planned Cost Saving Measures.** As a result of the planned staffing reductions and implementation of other cost-cutting measures, the Mission expects to be able to continue to its past efforts to aggressively reduce its dollar OE and Peso Trust Funds needs. Over the last three years the Mission had adapted to its reduced OE funding levels and increased regional responsibilities by streamlining the bilateral portfolio and making increased use of teams to manage activities, reducing internal paper flows, contracting out services, shifting administrative services from Mission staff to private contractors, significantly reducing the physical size of the office, making use of computers and computer software to increase efficiency, and finally, simply working longer hours.

We are now in the final stages of streamlining the FSN payroll system. Other USAID Missions have already inquired about our efforts in this area and we believe that the savings realized by our streamlined system holds considerable potential for cost-savings across the Agency. Furthermore, the Mission has taken the lead in working with the Embassy in Manila to reduce the cost of ICASS services. The Mission believes these efforts will result in the high quality but lower cost ICASS service delivery.

In FY 2000 there will be a one-time expense associated with the need to meet new security requirements growing out of the embassy bombings in East Africa. This will require a move (including the RIG, OFDA and US-AEP) to a new location in FY 2000. It is estimated that the move will cost USAID approximately \$1,600,000 million and RIG \$185,000 totaling \$1,785,000.

Finally, the Mission wants to stress that if it is to continue with its past (and continuing) cost cutting activities, there will be a need for a high level of flexibility in determining the mix of funds (OE and trust funds) and staffing (USDH, USPSCs and FSNs). While we intend to remain focused on consolidation and the reduction of costs, this flexibility will allow us take advantage of new cost-savings opportunities, thereby maximizing our ability to use USAID operating funds efficiently.