

USAID/Philippines

Annual Report

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Related document information can be obtained from:
USAID Development Experience Clearinghouse
8403 Colesville Road, Suite 210
Silver Spring, MD 20910
Telephone: (301) 562-0641
Fax: (301) 588-7787
Email: docorder@dec.cdie.org
Internet: <http://www.dec.org>

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Philippines

Performance:

Development Challenge

The Philippines continues to be held back by internal conflict and violence, most especially with separatist rebels from Mindanao and the growing communist New Peoples Army (declared a terrorist organization by the United States in 2002). With widespread poverty and social and economic exclusion among key ethnic and social groups extremism can find fertile ground, and Philippine territory has been used as a platform for the operations of international terrorist groups including the Jema'ah Islamiyah and Abu Sayyaf. At the same time it is a key ally in the global war on terror and plays a vital role in ensuring stability in Southeast Asia. It is also an ally with whom we share deep and historic ties, as exemplified in the reciprocal State visits of President Bush and President Macapagal-Arroyo in 2003 and the Philippines being declared a major non-NATO ally.

The Philippines clearly faces serious development challenges. It remains East Asia's economic growth laggard and is falling further behind its neighbors in key areas. The country's rapid population growth, which at 2.36% is the fastest in East Asia (as compared to 1% for Thailand and Indonesia's 1.6%), has diluted the impact of what economic growth has taken place, and severely strains access to basic social services, from energy and sanitation to education. Poverty afflicts 40% of the population, the largest incidence in Southeast Asia, and the country's natural resources are being severely depleted through population pressures, over-exploitation, and pollution, damaging globally-significant biodiversity. Corruption and ineffective institutions result in weak regulatory oversight, inhibit the development of competitive markets, and deter badly needed foreign investment. This, in turn, severely limits the government's ability to raise revenue and make needed investments in infrastructure, health, and education. Indeed the Government of the Philippines (GRP) has suffered a fiscal decline that led in 2002 to a record high deficit of 5.3% of GDP. Political instability (including an attempted coup by elements of the military in July 2003) and ongoing conflict feed the cycle of poor economic performance by discouraging private investors, halting tourism, and diverting scarce government funds to military and humanitarian expenditures.

Nevertheless, the Philippines can accelerate its economic and social development and achieve a secure peace with the MILF. Philippine democratic institutions have proved resilient, and the Philippines has maintained its market-based economy. Under the Arroyo administration some significant results have been achieved in 2003, on various fronts. Macroeconomic performance has been respectable, with annual GDP growth estimated at 4% or higher and the rate of inflation the lowest in 20 years at 2.75%. Data through the first half of the year suggest that the fiscal deterioration has stopped and that the government may meet its full-year 2003 deficit target of 4.7% of GDP. This accomplishment reflects spending restraint and, most importantly, more vigorous and successful efforts by the tax collection agencies to improve administration and enforcement. There are now a number of high-level champions in the battle against corruption (including some key figures with constitutionally-protected positions), as reflected in the increasing prominence of lifestyle checks on government officials. Efforts to improve transparency and effectiveness of government bureaucracies are beginning to bear fruit. The GRP is intensifying efforts to negotiate a peace with the separatist Moro Islamic Liberation Front (MILF). With USAID assistance, all those former combatants from the Moro National Liberation Front (MNLF) requiring assistance are being successfully reintegrated into the productive economy. Their success is demonstrating the tangible benefits of peace, and in the event of a peace agreement with the MILF, USAID stands ready to provide similar assistance to former MILF combatants.

USAID programs, particularly in Mindanao, continue to be affected by the ongoing conflict, inasmuch as

travel to certain areas must be undertaken with great caution. Nevertheless activities are proceeding on schedule, and USAID is having significant impacts on enhancing stability and development.

USAID's Response and Review of Results in FY 2003:

USAID supports Philippine reformers and peacemakers to address the key challenges of corruption and conflict, while also assisting Filipinos who are trying to mitigate the impacts of poverty on vulnerable groups. USAID/Philippines' assistance is organized around Strategic Objectives in five areas: the Muslim separatist conflict in Mindanao; corruption and economic governance; management of the energy sector and the Philippines' unique natural resources; the health impacts of poverty; and improving access to quality education. Assistance under all five Strategic Objectives focuses on conflict-affected areas of Mindanao. In addition, reducing corruption and improved governance, through decentralization, private-sector involvement, and administrative reform, are crosscutting emphases under all the Objectives.

Strategic Objective: Improved Access to Quality Education in Poor, Conflict-Affected Communities

This new Strategic Objective, "Increased Access to Quality Education and Livelihood Skills in Selected Areas, Particularly Areas Affected by Conflict and Poverty" was launched in October 2003 to address the political, economic, and social marginalization of Muslim and other impoverished and conflict-affected communities to build peace and economic security. Key areas of focus are:

- 1) increasing community-based learning opportunities (especially in school-less, conflict-affected areas);
- 2) promoting reintegration of out-of-school youth into the peaceful, productive economy;
- 3) improving teaching capacity in Math, Science, and English; and
- 4) reforming education policy (e.g., fighting corruption, especially in hiring and procurement).

Key Achievements

- Teacher Training: Collaboration with the Peace Corps and the Public Affairs Section of the Embassy resulted in Peace Corps Volunteer participation in English language teacher-training of 20 teachers from Muslim areas in Mindanao in October 2003. The Peace Corps will lead additional teacher-training events in English, Math and Science for Mindanao teachers in early 2004 under an interagency agreement between USAID and the Peace Corps.

- Education achievements under other SOs that serve as the building blocks for this new program include:

a. Providing public elementary and high schools in the Autonomous Region in Muslim Mindanao (ARMM) with up to five computers each, as well as with, software, printer, local area network and Internet connection;

b. On Dec. 15, 2003, completion of the first Congressional Internship Program for Young Muslim Leaders (CIPYML) that provided the first group of ten college graduates and graduate students with practical knowledge and skills in policy analysis and program management, and gives them an understanding of institutional dynamics related to the legislative branch.

c. Through the Asia Foundation (TAF), USAID monitors the Department of Education's procurement of text books to ensure their actual delivery in Philippine schools.

d. In partnership with TAF, USAID distributes books donated by U.S. book publishers to schools and libraries in conflict-affected areas of Mindanao, where reference books and reading materials are in critical short supply.

Strategic Objective: Prospects for Peace in Mindanao Strengthened

USAID is the GRP's principal partner in efforts to consolidate the peace with the MNLF in Mindanao. USAID activities focus on increasing economic opportunities, especially for people in the ARMM, which has the highest poverty incidence in the country. To do this, USAID supports: 1) integration of former MNLF combatants and their communities into the peacetime economy through livelihood training; 2) improving economic infrastructure in conflict-affected areas; 3) accelerating the economic and business development of Mindanao; 4) increasing access to microfinance services; and 5) expanding educational

opportunities for disadvantaged groups.

Selected Key Achievements

- USAID provided assistance to 8,000 former MNLF combatants to help them make the transition from guerilla fighters to productive farmers of seaweed, hybrid corn, or rice. This brings the total number of former combatants “graduated” from USAID assistance to 21,000 out of 25,000 identified as needing assistance.
- USAID also trained 3,000 program graduates in the production of more lucrative crops, resulting in 1,300 shifting production to these commodities. USAID also provided some 150 post-harvest facilities, such as solar dryers, corn shellers, and warehouses, to communities of former combatants; this has increased the selling price for their produce by as much as 35%.
- USAID developed the capability of an additional 18 rural banks in Mindanao to profitably provide services to micro-entrepreneurs and micro-depositors (mostly women). This brings the total number of rural cooperatives and banks assisted to 115.
- In education, USAID has already provided computers and internet connection in four high schools, reaching a total of 6,400 students. Another 12 schools are ready to receive the same assistance package. USAID plans to reach 100 schools by the end of FY 2005.

Strategic Objective: Investment Climate Less Constrained by Corruption and Poor Governance

USAID’s Economic Governance program focuses in two main areas: 1) strengthening ineffective institutions to support the government’s efforts to make corruption a high risk, low reward activity; and 2) removing barriers to the development of competitive markets in trade and infrastructure. USAID targets assistance where corruption can be especially damaging: tax and customs administration, government procurement, and the judiciary. USAID also focuses on supporting the implementation of the GRP’s pro-competition policy in inter-island shipping and ports, and information and communication technology.

Selected Key Achievements

- USAID helped strengthen the 2002 Anti-Money Laundering Act to address the concerns of the OECD Financial Action Task Force (FATF) on Money Laundering to ensure that an adequate legal framework is in place to combat money laundering. This law will strengthen the GRP’s capacity to fight terrorism.
- USAID helped streamline and speed up the government procurement process by providing technical assistance in the formulation of the Implementing Rules and Regulations (IRRs) for the Government Procurement Act passed in 2002.
- USAID provided technical assistance to the Office of the Ombudsman’s anti-corruption campaign, which has pursued successful prosecutions of corrupt officials. At the local level, USAID’s anti-corruption initiatives helped seven Mindanao cities and about three dozen municipalities to develop and implement good governance and anti-corruption programs.
- In inter-island shipping, critical for a 7,000 plus island archipelago nation, the Philippines, with USAID’s help, has taken an important step in reducing commodity transport costs by adopting Roll-on Roll-off (Ro-Ro) technology in the country’s sea-land transportation system.

Strategic Objective: Productive, Life-Sustaining Natural Resources Protected

USAID improves environmental governance at the national and local levels by helping governments address threats to marine and forest resources; build capacity to develop and implement integrated solid

waste management systems; and promote transparency and accountability in managing natural resources and enforcing environmental laws. USAID's work in energy and air quality is helping establish an open, competitive market for the generation and supply of power to lower the Philippines' high electricity costs, and helping reduce vehicle emissions to improve public health.

Selected Key Achievements

- USAID assistance to local governments to better manage coastal and forest resources resulted in an additional 3,730 hectares of coastline and 4,048 more hectares of marine sanctuaries being placed under improved management. This is helping to reduce conflicts over fishing grounds and land use, and supports the sustainable use of highly threatened and economically important natural resources.
- Through a partnership with Mirant Corporation, an independent power producer, USAID provided 2,520 households and public facilities in 84 remote communities of former rebel soldiers in conflict-affected areas of Mindanao with renewable energy-powered electricity (through solar panels donated by Mirant).
- USAID helped establish, accredit, and monitor the first 300 private vehicle emissions testing centers nationwide called for by the Clean Air Act. USAID also facilitated partnerships with private sector entities who have committed to invest more than \$5 million in infrastructure for compressed natural gas and other cleaner burning vehicle fuels.

Strategic Objective: Desired Family Size and Improved Health Sustainably Achieved

USAID's assistance focuses on two key factors contributing to poverty in the Philippines: continued high population growth, and the high incidence of tuberculosis. USAID also contributes to food fortification (especially with Vitamin A), HIV/AIDS surveillance and prevention, and maternal and child health. USAID's health assistance includes specialized interventions to improve the dramatically poor health indicators in conflict-affected areas of Mindanao and other marginalized areas of the country. To achieve these goals, USAID is: 1) strengthening the public sector delivery of health services, particularly by local government units; 2) stimulating the private, commercial sector to play a greater part in providing quality health services, particularly family planning, for those who can afford to pay; and 3) working to increase the social acceptance of family planning.

Key Achievements

- USAID continued to provide technical assistance to improve TB treatment to 51 municipalities in three isolated regions of the country, resulting in improved case detection and treatment success rates.
- In FY 2003, USAID launched a program with a local bank to provide a small loans package for the improvement and expansion of over 200 midwife clinics all over the country. USAID's Development Credit Authority (DCA) guarantees 50% of the loan portfolio. This is the first time a Philippine bank has agreed to lend to midwife clinics, and the first time (worldwide) that the DCA mechanism has been used to guarantee loans in the health sector.
- To increase social acceptance of family planning, USAID supported the production of four TV spots and the ongoing development of radio spots and print materials for the launch of a national family planning mass media campaign planned to begin in January 2004. In addition, fatwas (Islamic religious edicts) in support of family planning and reproductive health have been developed by Muslim religious leaders with technical assistance from USAID. The first provincial fatwa was proclaimed in October 2003, and the second fatwa was issued in December 2003.
- Local support to sustain HIV/AIDS activities have achieved increased success. HIV/AIDS/STI prevention policies were enacted as city ordinances in eight sites. Multisectoral AIDS Councils were also institutionalized and local budgets were allocated by LGUs for HIV/AIDS/STI prevention activities.

Gender. USAID addresses gender in a variety of ways, including: targeting women micro-entrepreneurs

in providing micro-finance services; helping women manage their fertility by increasing awareness of modern methods of family planning; promoting maternal and child health; and tackling the problem of human trafficking, which disproportionately affects girls and women.

Trade Capacity Building. USAID has the lead among donors in trade capacity building by assisting the GRP to create a more transparent customs regime, develop value-added tropical agricultural products, and improve the investment climate in enabling-infrastructure sectors such as energy, telecommunications, and financial services.

Public Private Partnerships. USAID works closely with the private sector, including through formal public private alliances, in numerous ways in all programs. To name just some of the most prominent examples: USAID is bringing renewable energy-powered electricity to remote communities through a partnership with Mirant Corporation. USAID's partnership with the Makati Business Club and various corporations is helping to bring access to computers and the Internet to schools in Mindanao and the ARMM. USAID supports the Philippine Corn Alliance, in partnership with Monsanto, to improve the productivity of 5,000 low-income small farmers.

Country Close and Graduation:

Results Framework

492-001 Accelerate the Economic Transformation of Mindanao

492-002 Governance of Economic and Legal Systems Improved

SO Level Indicator(s):

- Domestic tax effort (%)
- Gross capital formation (%)
- Job growth in private formal sector employment - female (%)
- Job growth in private formal sector employment - male (%)
- Level of trade protection (effective protection rate %)

2.1 Institutions, policies and practices made transparent and accountable

2.2 Competitive barriers to development of infrastructure and trade removed

492-003 Desired Family Size and Improved Health Sustainably Achieved

SO Level Indicator(s):

- Contraceptive Prevalence Rate (modern methods)
- Family planning users obtaining supplies and services from private sector sources
- HIV seroprevalence rate among registered female commercial workers below 3% in all sentinel sites
- Participating units (local governments and private clinics in the program for at least 1 year) achieving at least 85% treatment success rate for TB

3.1 LGU provision and management of FP/MCH/TB/HIV-AIDS services strengthened

3.2 Provision of quality services by private and commercial providers expanded

3.3 Greater social acceptance of family planning achieved

3.4 Policy environment and financing for provision of services improved

492-004 Productive Life-Sustaining Natural Resources Protected

SO Level Indicator(s):

At least 5,000 households in remote conflict-affected areas of Mindanao electrified with renewable energy by 2004

Hectares of coastal resources brought under improved management by 2004

Hectares of forest cover maintained by 2004

4.1 Improved environmental governance

4.2 Improved performance of the energy and air quality sectors

492-005 Reduced Growth of Greenhouse Gas Emissions

492-006 Broadened Participation in Formulation and Implementation of Public Policies in Selected Areas

492-007 Threat of HIV/AIDS and Selected Infectious Diseases Reduced

492-008 Assistance to Amerasians

492-010 Prospect for Peace in Mindanao Strengthened

SO Level Indicator(s):

- Cumulative number of former combatants reintegrated into the economy
- Cumulative number of mid-scale and community infrastructure construction started
- Cumulative number of new microenterprise borrowers
- Cumulative number of new microsavings accounts established

492-011 Increased Access to Quality Education and Livelihood Skills in Selected Areas

492-XXX 498-009 U.S. - Asia Environmental Partnership (US-AEP)