

**GROWTH WITH EQUITY  
IN MINDANAO III  
PROGRAM**

**GEM-3 PROGRAM**

**DEVELOPMENT ACTIVITY APPROVAL DOCUMENT**

**USAID  
OFFICE OF ECONOMIC DEVELOPMENT AND  
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## GROWTH WITH EQUITY IN MINDANAO III PROGRAM

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## I. SUMMARY

The conflict situation in Mindanao may be entering a new phase, at least with respect to the larger, more organized, and more “ideological” conflicts. The intensity of the conflict between the Government of the Republic of the Philippines (GRP) and the different adversaries – principally the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF), both fighting for independence for the Muslim minority, and the New People’s Army (NPA) – is substantially less than it has been for the past few decades. While fighting occasionally flares up between the Armed Forces of the Philippines (AFP) and MILF elements, peace talks between the GRP and the MILF are going on, and it is possible that a meaningful peace agreement may be reached. Periodic fighting between the AFP and small breakaway elements of the MNLF has been limited to a few municipalities in only two provinces. While elements of the terrorist Abu Sayyaf Group (ASG) and Jamaah Islamiyah (JI) somehow continue to elude the AFP forces continually hunting them, and do orchestrate occasional bombings, the ASG has suffered heavily from AFP attacks (which have been supported by U.S. military forces) and does not have the manpower or resources or freedom of action it had a few years ago. Elements of the NPA remain active in some areas of eastern Mindanao, but they remain a small group, with their activities largely confined to extortion and banditry.

While there are a number of reasons for the decline, it is clear that the substantial increase in government and donor resources allocated to the conflict-affected areas of Mindanao is one of the reasons for such decline. These increased resources – which have been used to meet needs in infrastructure, education and health improvement, former combatant reintegration, and other critical areas - have resulted in improvement in the quality of life of many of the people in the region. There are grounds for optimism that the decline in levels of violent conflict will continue, although clearly the two-pronged approach that the Government has been following must continue. Using military and other security resources, the Government must continue to contain and eliminate terrorists and bandits. To help assure that the violence does not again re-surface, the Government must also work to assure the expansion of economic opportunity for all the people of Mindanao.

If the resources are available, and if the correct approaches are followed, it is possible that Mindanao may finally be able to emerge from the vicious cycle that has ensnared much of it for decades. Violence and fears of violence have been hindering economic growth and the emergence of economic opportunity. This absence of opportunity, in turn, has helped to maintain a situation where many individuals have been ready to turn to violence and rebellion with the hope that, through these routes, they would be able to improve their economic prospects.

The new GEM-3 Program, which will be implemented over a five-year period, will build upon and evolve from the positive impacts achieved by the GEM-1 and GEM-2 Programs. To a significant extent, activities carried out under GEM-2 will also be carried out under GEM-3. GEM-3 will also, however, include several activities not carried out to any significant extent under GEM-2. GEM-3 will remain focused on the conflict affected areas of Mindanao – both the area affected by the Muslim separatist conflict, and

the area affected by the NPA conflict. It will continue to be an “umbrella” program, charged with carrying out activities across a range of technical fields – including infrastructure development, workforce preparation, business development, governance improvement, and (if a peace agreement between the GRP and MILF is attained), former combatant reintegration.

The primary program implementer will be a U.S. private firm, or consortium of local and U.S. firms, engaged under a Mission contract, following full and open competition.

## **II. BACKGROUND**

### **A. Peace and Order Situation**

The southern Philippines island of Mindanao, home to about 22 million people, has been the site of extensive anti-Government armed conflict for more than three decades now. The GRP’s principal adversaries have been the Muslim separatist groups – principally the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF) - fighting for independence (or at least substantial autonomy) for the Muslim minority of Mindanao, and the “marxist” New Peoples Army (NPA). The intensity of the conflict with the different adversaries has fluctuated over time – sometimes reaching the level of positional warfare with battalion-sized units engaging each other, and at other times shrinking to occasional skirmishing with small bands. During the 1970s, the principal conflict was with the Muslim separatist groups; during the 1980s, the NPA was the principal menace; during the 1990s, there was a resurgence of the struggle with the Muslim separatist groups.

In addition to the conflict with these adversaries, the late 1990s saw the appearance of terrorist organizations like the Abu Sayyaf Group (ABG) and Jamaah Islamiyah (both of which profess to be jihadist). Both of these organizations have carried out multiple bombings and kidnappings where civilians were the main targets.

In addition to the extensive death and destruction the conflicts have caused, the violence has also effectively precluded the possibility of substantial economic development progress in most of Mindanao. As a result of this, Mindanao, by virtually all measures, remains the least well off area of the Philippines, with lowest levels of per capita income and education, and highest levels of endemic disease, illiteracy, unemployment, etc.

The conflict situation in Mindanao may, however, be entering a new phase, at least with respect to the larger, more organized, and more “ideological” conflicts. At this point, while fighting still occasionally flares up between the Armed Forces of the Philippines (AFP) and elements of the Moro Islamic Liberation Front (MILF), peace talks between the GRP and the MILF are going on, and both sides express optimism that a meaningful peace agreement may soon be reached. While there has been periodic fighting between the AFP and small breakaway elements of the MNLF, that fighting has been limited to a few municipalities in only two provinces. For the most part, the ten year old peace agreement between the GRP and the MNLF has held. While elements of the terrorist

Abu Sayyaf Group (ASG) somehow continue to elude the AFP forces continually hunting them, and do manage to bring off occasional bombings, the ASG has suffered heavily from AFP attacks (which have been supported by U.S. military forces) and does not have the manpower or resources or freedom of action it had a few years ago. Elements of the NPA remain active in some areas of eastern Mindanao, but they remain a small group, with their activities largely confined to extortion and banditry.

The normal “background noise” violence in Mindanao – clan warfare (rido), land and resource disputes, election violence, warlordism, etc. - continues, but does not appear to be as widespread as it has sometimes been in the past.

Overall, the amount and intensity of violent conflict is substantially less than it has been for the past few decades. While there are a number of reasons for the decline, it is clear that one of the reasons for the decline has been the substantial increase in government and donor resources allocated to the conflict-affected areas of Mindanao. These increased resources – which have been used to meet needs in infrastructure, education and health improvement, former combatant reintegration, and other critical areas - have resulted in improvement in the quality of life of many of the people in the region, and, perhaps even more importantly, have led many people to believe that the future can and will be better than the past. The greater hope for the future makes people less likely to respond to calls to take up arms against the government, or other perceived enemies.

There are grounds for optimism that the decline in levels of violent conflict will continue, although clearly the two-pronged approach that the Government has been following must continue. Using military and other security resources, the Government must continue to contain and eliminate terrorists and bandits. To help assure that the violence does not again re-surface, the Government must also work to assure the expansion of economic opportunity for all the people of Mindanao.

If the resources are available, and if the correct approaches are followed, it is possible that Mindanao may finally be able to emerge from the vicious cycle that has ensnared much of it for decades. Violence and fears of violence have been hindering economic growth and the emergence of economic opportunity. This absence of opportunity, in turn, has helped to maintain a situation where many individuals have been ready to turn to violence and rebellion with the hope that, through these routes, they would be able to improve their economic prospects. The GEM-3 Program will be one of the means through which the USG will assist the GRP and the people of Mindanao to break the vicious cycle.

## **B. USAID’S Role**

USAID has been implementing a major assistance effort in Mindanao since the early 1990’s. Initially, USAID’s efforts were concentrated on the SOCSARGEN (South Cotabato Province, Sarangani Province, and General Santos City) region. Beginning in 1995, USAID decided that Mindanao would be the focus of its overall assistance efforts, and expanded its activities to cover all of Mindanao and the Sulu Archipelago. After the

signing of the Peace Agreement between the GRP and the MNLF in 1996, USAID intensified assistance efforts in the conflict affected areas of Mindanao. With the appearance of jihadist terrorist organizations in Mindanao in 2001-2003, and concerns about Mindanao becoming a recruiting ground for international terrorist organizations, USAID further intensified its activities in Mindanao.

While USAID's activities in Mindanao cover the entire island, as mentioned above, there is a concentration of effort in the conflict affected areas – including the area affected by the Muslim separatist conflict, and, to a lesser extent, the area affected by the NPA conflict. The activities cover all sectors. Major efforts have been (and continue to be) undertaken in: infrastructure development, education improvement, health and family planning services improvement, agribusiness and fisheries development, democracy promotion, former combatant reintegration, environmental protection and management, renewable energy development, public administration improvement, as well as other sectors. All activities carried out by USAID in Mindanao have the mutually-supportive objectives of consolidating and strengthening peace in Mindanao, and expanding economic opportunity for the people of Mindanao.

Various evaluations and assessments carried out over the past several years confirm that USAID's programs have been effective both in laying the groundwork for long term economic progress in Mindanao, and also in helping to consolidate the peace in Mindanao. It has been noted that, while armed clashes still occur from time to time, there has been almost no movement of former MNLF combatants who have been the beneficiaries of USAID programs into the MILF, or into the Abu Sayyaf Group. Even when the "Misuari Breakaway Group" (MBG), a small splinter group of the MNLF based in the province of Sulu, came under attack from the AFP in 2005, and issued a call for support from the rest of the MNLF, they received basically no response. The fact that this movement of the battle-hardened and well-armed former MNLF combatants into the ranks of the MILF, ASG, or MBG did not occur has been a crucial factor in "keeping the lid on" those problems, and preventing them from becoming much worse than they have been. The USAID programs are widely credited with being important factors in preventing an expansion of violence over the past several years.

### **III. PROBLEM STATEMENT**

It is clear that two closely inter-related factors underlie the conflict and violence that has afflicted Mindanao for so long. First, by virtually all measures (including poverty incidence, per capita income, infant/child mortality, life-span, literacy, etc.) Mindanao has been and remains the poorest part of the Philippines. Within Mindanao, the areas inhabited by the Muslim minority are the most poor. The absence of economic opportunity in Mindanao, particularly the Muslim areas of Mindanao, created fertile ground for recruitment of people prepared to take up arms against the Government in the hope that this might lead to a better life.

Second, Mindanao and the Sulu Archipelago were under-served for decades with respect to allocation of government resources. The widespread perception that this was due to an

anti-Muslim bias on the part of the GRP was a significant contributory factor leading to the separatist conflict. Infrastructure and other facilities and services provided under GEM-1 and GEM-2 (as well as under other USAID projects), have made impressive beginnings in countering some of the historical “short-changing” that Mindanao has experienced, and in repairing some of the damage incurred during the conflicts. The investments made under these programs have also demonstrated that properly allocated, properly managed, and properly publicized USAID assistance can and does have an impact on changing public perceptions regarding prospects for future prosperity, and does reduce the likelihood that people will turn to violence as a means of improving their prospects. They also make it far more likely that employment-creating private investment in new or expanded enterprise will occur. As past experience has demonstrated that USAID assistance does produce the desired results in terms of expansion of economic activity and consolidation of peace, and as the needs for assistance activities in Mindanao and the Sulu Archipelago remain great, we are proposing to significantly increase activities being carried out.

#### **IV. PROGRAM DESCRIPTION**

##### **A. Program Objective and Strategy**

The GEM Program has been USAID’s “flagship” activity in Mindanao since 1996. It is by far the largest and best known of all the various USAID programs and activities in Mindanao. It is an “umbrella” program under which USAID is able to support a wide range of different activities in Mindanao, all intended to contribute to peace and development in Mindanao.

Initially conceived as a five-year program which would run from 1996 through 2001, USAID subsequently decided that the GEM Program was such a useful and effective effort that it would continue the program through to the end of 2007. (The initial 5-year program has subsequently become known as the GEM-1 Program, while the GEM Program currently being implemented, and which runs from 2002 to 2007, is referred to as GEM-2). At this point, because the GEM Program has continued to be useful and effective, OEDG is proposing that the GEM Program be further continued, and that USAID/Philippines embark upon a GEM-3 Program. The proposed GEM-3 Program is described below.

Reflecting the different needs, opportunities, and resource levels as these have changed over time, the kinds of activities carried out under the GEM Program have also changed over the years. Under GEM-1, there was a substantial concentration on improving the business climate in Mindanao and attracting and facilitating agribusiness investment in Mindanao. Under GEM-2, while efforts continued to bring about greater investment in agribusiness, substantial efforts were also undertaken in infrastructure development, school computerization, and governance improvement. Under both GEM-1 and GEM-2, substantial and successful efforts were undertaken to assist former MNLF combatants reintegrate into society, and develop the means of making a reasonable living for themselves and their families.



The new GEM-3 Program will have many of the attributes and follow many of the same practices that have contributed to the success of the GEM-1 and GEM-2 Programs. As was the case with the earlier Programs, it will have a substantial “on the ground” presence throughout Mindanao, and thus will be in position to learn about emerging opportunities and emerging problems that may be addressed by GEM-3. It will continue to be an “umbrella” program, charged with carrying out activities across a range of technical fields – thereby allowing it to learn about different problems from a variety of perspectives, and to intervene in addressing problems with a variety of tools. While maintaining very close relationships with and receiving guidance and oversight from key GRP and ARMM Government agencies, it will not be integrated into any specific GRP agency. (Thus, it will have the flexibility of intervening and providing assistance in a much wider arena than would be the case if it was integrated into a specific GRP agency). Very importantly, it will enjoy use of a “Special Activities Fund,” a tool which will allow it quickly to provide resources needed for a host of worthwhile organizations for a host of worthwhile purposes. It will continue to operate a “communications and information” program that will regularly put out press releases and articles providing “good news” about Mindanao and USAID activities in Mindanao. It will continue to provide support services (security advisories, trip planning, media relations) to other USAID programs and projects in Mindanao, and for the Embassy.

GEM-3 will build upon and evolve from the positive impacts achieved by the GEM-1 and GEM-2 Programs. To a significant extent, activities carried out under GEM-2 will also be carried out under GEM-3. GEM-3 will also, however, include several activities not carried out to any significant extent under GEM-2. GEM-3 will remain focused on the conflict affected areas of Mindanao – both the area affected by the Muslim separatist conflict, and the area affected by the NPA conflict.

## **B. Relationship to Foreign Assistance Reform and Mission Priorities**

The GEM-3 Program will support Foreign Assistance Reform objectives in the area of: peace and security (conflict mitigation and reintegration of former combatants); governing justly (improving local governance); investing in people (workforce development and education); and economic growth (infrastructure, agriculture, and private sector competitiveness).

In terms of the USAID/Philippines current strategy, GEM-3 will be the major means to attain its Strategic Objective No. 12 – “Conflict Reduced in Mindanao and other Areas Vulnerable to Violence.” Working in concert with other USAID activities also working toward that objective, and also working closely with other donor projects focused on Mindanao, GEM-3 will mount or support activities which attempt to produce the three “Intermediate Results” identified in USAID’s strategy as being key to the attainment of the Strategic Objective, namely: Development of Needed Economic Infrastructure; Improvement of Governance and Social Services; and Expansion of Economic Opportunity in the Conflict Affected Areas.

- With respect to “Development of Needed Economic Infrastructure,” GEM-3 will continue the small and mid-scale infrastructure development programs initiated under GEM-2, but will also include provisions for a number of larger-scale projects. Greater attempts will also be made to construct mutually-reinforcing “packages” of infrastructure projects which can catalyze more extensive economic growth in the areas they service. As has been the case with GEM-2, all infrastructure projects undertaken under GEM-3 will also have the peace-strengthening objective of demonstrating to the peoples in the conflict affected areas that the perception that their concerns and needs are regularly ignored by the GRP is out of date.
- With respect to “Improvement of Governance and Social Services,” GEM-3 will continue efforts initiated under GEM-2 to introduce computer and internet education into schools; to encourage parents (through Parent-Teacher-Community Associations – PTCAs) to actively participate in efforts to improve education in their local schools; and to improve the relevance and utility of course offerings (e.g. through efforts to improve English language instruction in the schools; through establishment of greater linkages between schools and industry; etc.). Internship programs will be expanded. Efforts will be undertaken to improve public administration and governance in key LGUs – with particular emphasis on encouraging and assisting LGUs to increase local revenue collections, and to better manage and maintain publicly owned infrastructure.
- With respect to “Expansion of Economic Opportunity in Conflict Affected Areas,” GEM-3 will continue to work with key business and industrial sectors in efforts to increase production, marketing, out-shipment, and export of key agribusiness and fisheries products. Efforts will also be undertaken aimed at facilitating expansion of the call center, tourism, and other industries with significant expansion potential.

### **C. Program Components**

As indicated above, as was the case with its predecessors, GEM-3 will also be an umbrella program under which a range of different types of activities will be carried out. Activities to be carried out are broadly broken down between: 1. GEM-3 Program Activities; and 2. GEM-3 Support Activities.

**GEM-3 Program Activities will be carried out under the following GEM-3 Components:**

- 1. Infrastructure Development Activities**
- 2. Business Development Activities**
- 3. Workforce Preparation Activities**

- 4. Governance Improvement Activities**
- 5. Former Combatant Reintegration Activities**
- 6. Other Activities**

**GEM-3 Support Activities include:**

- 1. Communications and Information Service**
- 2. GEM-3 Support Services**
- 3. Special Activities Fund**

Descriptive information on each of these activities follows below.

**Program Activities:**

**1. INFRASTRUCTURE DEVELOPMENT**

The hundreds of infrastructure projects constructed in the conflict affected areas during the GEM-2 Program have clearly been the most visible and probably the most widely appreciated efforts undertaken during GEM-2. The projects have well served their dual purposes of both contributing to consolidation of peace and making possible expansion of economic opportunity and improved access to social services. The infrastructure has contributed to consolidation of peace by demonstrating to the people in the conflict affected areas that the widespread perception that the GRP and the donors were not concerned about their well-being was no longer accurate.

Because of its obvious success in contributing toward both peace and development goals, infrastructure development was the largest single component of the multi-component GEM-2 Program. About 800 small-scale projects (referred to as Community Infrastructure Projects – CIPs), and 40 larger-scale projects (referred to as Mid-Scale Infrastructure Projects – MSIPs) were constructed under GEM-2 in the conflict-affected areas of Mindanao. As approximately half of the roughly 10,000 barangays (villages) in Mindanao are considered to be “conflict affected,” this meant that USAID was able to construct an infrastructure projects in almost one-fifth of all conflict-affected barangays.

Infrastructure development will also be the largest single component of the GEM-3 Program.

**BIPS AND RIPS.**

As was the case during GEM-2, USAID will also construct both small and mid-scale infrastructure projects under GEM-3. However, to avoid some misunderstandings that ensued because of how those projects were designated under GEM-2, they will now be

referred to as Barangay-level Infrastructure Projects (BIPs), and Regional Impact Projects (RIPs).

Construction of BIPs and RIPs will continue to have the dual objectives of: 1. strengthening peace in Mindanao by demonstrating to people in the conflict affected areas that the GRP and the donors are prepared to make investments aimed at expanding opportunity and improving the quality of life in their areas; and 2. helping lay the groundwork for expansion of economic opportunity in the areas.

The types of BIPs and RIPs constructed under GEM-3 will be the same as those constructed under GEM-2; e.g. farm-to-market roads, footbridges, river landings, boat landings, piers, warehouses, solar dryers, passenger waiting sheds, jeepney turn-arounds, marketing centers/facilities, box culverts, irrigation canals, causeways, community centers, water systems, ports, bridges, major roads, etc. As was the case under GEM-2, BIPs will generally have construction costs of between \$5,000 and \$50,000; while RIPs will have construction costs of \$50,000 and higher. (For the most part, construction cost of RIPs will be less than \$1 million each. Some, however, may cost up to \$3-4 million).

The principal anticipated beneficiaries of BIPs will be the people of the barangays in which they are located. RIPs, however, will be intended to have a substantially larger number of beneficiaries. While both BIPs and RIPs are intended to serve the peace-consolidation objective of demonstrating that a better life is possible, given the substantially greater investment that will go into RIPs (vis a vis BIPs), the “visibility” criteria of RIPs will be substantially higher than will be the case for BIPs.

In most cases, project design work for BIPs will be carried out by GEM-3 staff, while in most cases, project design work for RIPs will be sub-contracted to specialized firms.

As was the case with GEM-2, virtually all construction work for BIPs and RIPs will be sub-contracted to local firms, preferably to Mindanao-based firms, but, when necessary, to firms based in Manila or elsewhere in the Philippines or outside of the Philippines. To as great an extent as possible, in order to reduce administrative burdens, GEM-3 will attempt to “package” the construction work for several BIPs into one sub-contract.

All BIPs and RIPs will be carried out on a cost-sharing basis with the principal beneficiaries shouldering 20-50% of the costs of the projects.

USAID will have the right to review and concur with all proposed BIPs and RIPs.

### **BIP-Specific Approaches**

BIPs to be constructed will be identified through processes involving extensive consultation with: LGU leaders (including LGUs at provincial, municipal, and barangay levels); GRP agencies (especially MEDCo); business support organizations like chambers of commerce and producer associations, etc.; MNLF leaders; leadership of the

Bangsamoro Development Agency (BDA); community groups; other donors; etc. USAID will have the right to concur with all proposed BIPs.

All BIPs will be constructed on a cost-sharing basis with beneficiaries of the projects. Normally, beneficiaries of the projects will be expected to contribute about 25% of the costs of the projects, although, on occasion, it may be appropriate or necessary to seek greater contributions. Contributions of the beneficiaries to construction of the projects can be either in cash (preferably) or in-kind. In the case of in-kind contributions, only those contributions that actually reflect cash outlays of the beneficiary, and/or which will offset or substitute for cash outlays from the GEM-3 Program can be counted.

In general, it is clear that, in the case of BIPs, the dual peace and development objectives of the GEM-3 Program will best be served by construction of as many projects as possible. As an ideal, USAID would like to attain a situation where most of the approximately 5000 barangays in the conflict-affected areas of Mindanao become the site of a BIP or RIP which can contribute to a better life for the people of the barangay. (This, of course, is just a “rule of thumb.” In fact, many barangays are so remote and have such limited populations as to make it impractical to make them sites for infrastructure projects; conversely, some barangays are so placed and have such sizable populations as to warrant construction of more than one project). Given that approximately 1000 barangays are already benefiting from USAID-financed infrastructure projects constructed under GEM-2, and given that approximately 1500 barangays are benefiting or will benefit from infrastructure projects constructed under World Bank and other donor-financed efforts, **we are proposing that some 1000 BIPs be constructed under GEM-3.**

### **RIP-Specific Approaches**

Regional Impact Projects (RIPs) to be carried out under GEM-3 may sometimes be somewhat different than the RIPs carried out under GEM-2. The principal differences are that, under GEM-3:

1. Additional efforts will be made to identify and undertake projects which might have a “transformational” effect on the provinces in which they are undertaken. To a greater extent than was the case under GEM-2, USAID will be seeking to support projects which could catalyze the expansion of existing business and industry or even make possible the emergence of new business and industry. This will mean that, in some cases, packages of mutually-supporting infrastructure projects will be undertaken. (Although the different projects in the packages may not necessarily be undertaken by the same construction firms under the same sub-contract).
2. There will no longer be a \$1 million per project cost ceiling for RIPs. While a large majority of the RIPs to be undertaken during GEM-3 will cost well less than \$1 million, several of the projects could cost more than that – perhaps up to \$3-4 million.

**It is anticipated that some 15 to 20 RIPs will be undertaken over the life of GEM-3.**

Some examples of “transformational” RIPs that may be undertaken under GEM-3 include:

- Central Mindanao Transport Network Project – a multi-element effort involving construction of both a series of boat landings and several roads that serve the area abutting the Liguasan Marsh. This project would be important both for expanding economic opportunity and availability of social services for people living in the area, plus making possible the emergence of an eco-tourism industry for the area.
- Sulu Circumferential Road - actually an effort to develop the three sections of the Sulu Circumferential Road (Jolo – Bato bato section, Silangkan-Parang section, and Parang-Maimbung section) that are most critical to economic expansion.
- Basilan Circumferential Road – concreting of the approximately 20 kilometers of the road which are not covered by the Saudi Fund.
- Bongao Port-Chinese Pier Bridge and Road (Tawi-tawi) – this effort would link the key economic centers of Bongao.
- Marawi City Roads/Ports – this would include an upgrade to the principal port serving the Marawi City residents and fishermen in Lake Lanao; a boat landing along Datu Sadansalan Avenue; and concreting about 4 kilometers of road leading to the newly-built bus terminal.
- Tawi-tawi Port Upgrades – this would include upgrades to up to five feeder or tertiary ports which serve principal population centers other than Bongao (e.g., Kuala Baru Port, Bato-bato Port, Ubol Port, Tungbankkaw Port, etc.).
- Sulu Secondary Port Upgrades – this would involve upgrading Parang Port (on Jolo Island), Lugus Port (Lugus Island), and Pangutaran Port (Pangaturan Island), all of which serve sizable population centers.
- Basilan Bridges – this would involve construction of two new bridges, and reconstruction/upgrade of four existing bridges, all on the Basilan Circumferential Road.
- Post-harvest and Cold Chain Infrastructure Development – this would be done on a partnership basis with key LGUs, BSOs, and private firms. VhT facilities (for mango treatment), Cool/cold storage facilities, and other storage and warehousing facilities needed to allow major expansion of out-shipment of vegetables/fruit/marine products will be established in strategic areas.

- Power Connector Projects – this would be done on a partnership basis with LGUs and Rural Electric Co-ops (and other power distributors). Essentially, USAID will assist in extending the main electric power grid to reach 3-10 non-electrified communities, where such extension is viable and feasible given the size of the new markets which will be served versus the costs associated with extending the grid.

Additional RIPS, including additional “transformational infrastructure” projects and packages of projects will be identified and undertaken during the course of implementation of GEM-3.

## 2. BUSINESS DEVELOPMENT ACTIVITIES

While continued improvement of the peace and order situation in Mindanao is the sine qua non for significant and sustained expansion of job-creating private investment in Mindanao, USAID will continue to implement activities aimed at laying the groundwork that will make it more likely that the significant private investment will occur when and where the peace and order situation allows this. This “groundwork” includes the infrastructure development, workforce preparation, and governance improvement activities being implemented under the GEM Program, as well as the education, health, governance, and environmental management improvement activities implemented under several other USAID programs. In addition to these general business environment strengthening activities, the groundwork will also include several activities to be implemented by GEM-3 which are specifically intended to address some key deficiencies and to explore and take advantage of possible opportunities. Some of these activities are continuations or modifications of activities carried out under GEM-2, while others are innovations specific to GEM-3.

Specific “Business Development” activities to be carried out under GEM-3 include:

- further implementation of a (modified) Business Support Organization (BSO) Development Effort
- further implementation of a (modified) Targeted Commodity Expansion Program (TCEP)
- A concentrated effort to attract or facilitate initial/exploratory investments in especially promising sectors.

Information on each of these proposed activities follows.

**Business Support Organization (BSO) Development...** Under GEM-1 and GEM-2, USAID supported a long-term effort to bring about the establishment and effective functioning of a network of BSOs, representing all key business sectors, which could provide needed services to their member firms and to consumers. This effort has been largely successful. At this point, chambers of commerce throughout Mindanao are regularly and effectively assuring that the views of the business sector are heard in their communities; producer associations representing and providing services to vegetable growers, fruit growers, seaweed producers, the tuna fishing industry, etc. are in place and

functioning; island-wide or region-wide organizations (e.g., the Mindanao Business Council, the ARMM Business Council, the Muslim Business Forum) likewise are providing valuable services. To a substantial extent, all these organizations are now “financially viable,” that is they are attracting/generating/earning sufficient funds to allow for their continued functioning.

Under GEM-3, support for BSOs will continue, but, except in a few situations, the support will focus less on institutional development and capacity building for the BSOs, and more on support specific activities undertaken by the BSOs. In the case of producer associations, it will concentrate more on helping the BSOs in their market development efforts – by increasing competitiveness through improvements in production practices, packaging, product transport, and sales procedures. In the case of chambers of commerce, the support will be focused on assisting selected chambers to become more effective advocates of improved LGU performance in key fields (e.g., revenue generation, corruption control, etc.), and to play more significant roles in support of important community improvement efforts (e.g., assisting local schools to offer higher quality education; assisting in environment “clean-up” efforts; etc.). In the case of the Mindanao-wide or area-wide BSOs, support will be provided principally to assist them to carry out annual conferences and other “events.”

**It is anticipated that most or all of the approximately 30 BSOs which have received support from GEM over the past decade will continue to receive the limited activity or event specific support discussed above. Several additional chambers (e.g., those in the municipalities of Pikit, Upi, Parang, Carmen, etc.) and producer/trade associations which have not yet received USAID support will also receive support under GEM-3.**

**Following appropriate analyses and negotiations, institutional development support may be provided to one or more tourism development-related BSOs, to one or more aquaculture-related BSOs, and to business-outsourcing related BSOs.**

**Targeted Commodity Expansion Program (TCEP).** The TCEP was initiated under GEM-1 and continued under GEM-2. Initially, the principal objective of the TCEP was to bring about the introduction and/or significant expansion of production and marketing of selected commodities not widely or traditionally grown in Mindanao, and which seemed to hold promise of producing better returns for large numbers of small farmers than the returns they were receiving from the crops and commodities they traditionally produced. That effort obtained considerable success, with major expansion of production of mangoes and other fruit, peanuts, seaweed, marine products, vegetables, and hybrid corn. Under GEM-2, the TCEP strategy shifted to encouraging (and facilitating) export and out-shipment of these products from Mindanao to other areas of the Philippines, with the hope and expectation that the demands and requirements of these external markets would encourage sizable numbers of producers to adopt those changes necessary to compete in a global arena – and therefore would move away from the low-skill, low-tech, low-yield, low-quality, and low-profit approaches that have historically characterized agriculture and aquaculture production in Mindanao.



Under GEM-2, there were four components of the TCEP Program – a China Export Component, the High Value Horticulture (fruit and vegetables component), the Sustainable Aquaculture and Fisheries Effort (SAFE) Component, and a LEAP Graduate component (which focused on assisting selected former MNLF combatants who had previously “graduated” from the LEAP Program to move into production of higher value crops). Production for markets external to Mindanao characterized all the components.

The GEM-2 Program achieved substantial success in the effort to help small farmers penetrate the targeted external markets (e.g., exports to China of products targeted by the TCEP program quadrupled; shipments of vegetables to non-Mindanao markets in the Philippines (e.g., Manila, Cebu, and Iloilo) have similarly expanded.

Under GEM-3, the TCEP will focus on further and dramatically expanding exports to China and other export markets. A principal strategy will be to take advantage of the leadership of existing exporters, including multi-national corporations who already have experience with these markets, and have plans for expanding their sales in these markets. These organizations have the resources to penetrate foreign markets - including logistics, market knowledge, local agents, and product distribution systems. Once these firms obtain access to these markets with the high-quality products they produce on their own, they often seek to expand their shipments to those markets, initially by increasing their own production, and subsequently by entering into contract growing-type arrangements with small farmers. Because this system does produce substantial benefits to both the large and small producers, GEM-3 will continue to help large producers/exporters to obtain greater market share in the Philippines, and new export markets in China, Japan, Malaysia, Korea, the Middle East, etc., and will continue to help these firms establish mutually profitable working arrangements with large numbers of small farmers.

In addition to the products which received focus under GEM-2 (fresh and processed fruit and vegetables, tuna, carageenan, etc.) substantial attention will also be paid under GEM-3 to export of high value marine products like grouper, abalone, and sea cucumber. As was the case under GEM-2, we anticipate and expect that production and out-shipment/export of targeted products under GEM-3 (measured both by volume and by value) will triple during the life of GEM-3.

Specific activities to be carried out to bring about this sizable expansion of production and out-shipment/export of specific targeted commodities will be worked out during the course of implementation of GEM-3. These activities will likely include:

- Providing cost-sharing for efforts of producers and exporters to learn about specific export markets and develop needed contacts in those markets. Conversely, GEM-3 may also share certain costs of potential buyers of Mindanao products to help them learn about Mindanao production and processing capabilities.
- Helping to bring about a sizable expansion of needed warehousing, cold storage and VHT facilities. (Depending on the commodity and the location, this could

entail GEM's cost-sharing the cost of establishment of these facilities with LGUs, producer associations, etc.).

- Helping assure the availability of critically needed transportation infrastructure in critical areas. This could involve GEM-3's undertaking construction of the infrastructure on its own; possibly cost-sharing the construction with anticipated principal beneficiaries of the infrastructure; or simply making the need for the infrastructure plainly apparent to other donors, the GRP, and relevant LGUs.
- Providing or arranging for needed technical experts who can provide information and advice to major producers/exporters and producer associations on: market requirements, new technologies, marketing strategies, etc.

**Attracting Initial/Exploratory Investments in Key Industries.** As indicated above, USAID is very much aware that an acceptable "peace and order" situation is a prerequisite to substantial job-creating private sector investment in Mindanao and the Sulu Archipelago. USAID is also aware that a significant expansion of employment opportunities is an important factor in assuring the emergence and the maintenance of an acceptable peace and order situation.

While those few areas of Mindanao that have been relatively conflict-free for the past several years (e.g., Davao City, Cagayan de Oro, etc.) have seen encouraging levels of private investment (and concomitant employment growth) over the past few years, there has been essentially no investment in new business creation or expansion of existing business in most areas of the island. This absence of investment reflects the widely understood reality that business people will not invest in areas where they may become victims of kidnapping and extortion, or where they or their employees or their property may be caught in the cross-fire when warring groups start fighting.

It seems likely that, absent special incentives or special arrangements, there will not be a significant expansion of job-creating investment in the conflict affected areas until business people perceive that the danger has abated, and that it will be possible to operate safely and profitably in those areas. This probably means that there will not be any substantial investment until one or two years goes by without any kidnappings, bombings, political assassinations, or battles occurring in those areas.

Given the "Catch-22" situation that the conflict affected areas of Mindanao and the Sulu Archipelago find themselves in – i.e., a situation where substantial job creation is a prerequisite to improving the peace and order situation, but where the investment needed to create those jobs is not appearing because the peace and order situation is perceived as being too perilous – GEM-3 will undertake several business promotion activities in the region which, under normal circumstances, it might hesitate to undertake because of concerns about the possible delay that might occur in obtaining payoffs from these activities. GEM-3 will attempt to "jump-start" investment in the few sectors which seem to have particular promise for the area – including tourism, mining, business process outsourcing, and agri-business processing. Analytical reviews to determine potential impact

on U.S. jobs will be conducted as necessary before implementing activities intended to strengthen these industries. Depending on events over the near term future, it is possible that other sectors may also be selected for special promotion.

A brief discussion of the different promising sectors, and approaches that may be followed to encourage initial or exploratory investments in those sectors follows.

- **Tourism.** Two types of tourism seem to hold the most immediate promise for the conflict affected areas of Mindanao and the Sulu Archipelago – beach tourism in the islands of the Sulu Archipelago; and “cultural-religious-ecological” tourism. The islands of the Sulu Archipelago are among the most beautiful spots on Earth. In the absence of peace and order problems, they would clearly already be attracting investors eager to put up hotels, resorts, scuba-diving centers, etc. Under GEM-3, USAID will undertake several activities aimed at making potential investors aware of the opportunities in the area. USAID will also work with the GRP and LGUs in the area to help put in place the infrastructure needed to make the tourism investments feasible, and to make sure that adequate security is provided at and near the sites to be promoted. With respect to “cultural-religious-ecological” tourism, USAID will work with the GRP and relevant LGUs, and with tourism promotion associations to make potential visitors from Muslim countries aware of key sites in Mindanao and the Sulu Archipelago which would be of interest to Muslim visitors, e.g., “the Islamic City of Marawi,” Simunul Island in Tawi-tawi (site of the first mosque ever to be constructed in the Philippines), etc. GEM-3 will also seek ways to promote tourist interests in various areas of special environmental interest, i.e., the Liguasan marsh.
- **Business Process Outsourcing (BPO).** The potential for this sector lies in the facts that demand for English-speaking Filipinos to work in this field continues to grow, while the supply of qualified English-speakers in the major cities of the Philippines seems to be running low, and BPO firms are finding it more and more difficult to find all the people they need. While English proficiency is not as strong in most of the conflict affected areas of Mindanao as it is in the major cities on Luzon and the Visayan islands, there are sufficient numbers of English speakers available to make possible the establishment and functioning of at least a few BPO firms in some areas, e.g., Zamboanga and Cotabato City. The key to persuading BPO firms to set up in those areas seems to lie in making them aware: 1) that there are enough English speakers around to make a successful operation possible; 2) that the telecommunications and other support services needed for operation are available; and 3) that their security can be guaranteed. Under GEM-3, this effort will be made. In addition to providing information services, if deemed appropriate, USAID may also authorize some limited cost-sharing with the investing firms as a means of encouraging accelerated investments.
- **Mining.** The fact that Mindanao holds enormous deposits of a number of valuable minerals (copper, nickel, gold, silver, coal, etc.) is well known to the international mining industry and, with the recent ruling by the Supreme Court that foreign

mining firms may operate in the country, a number of mining companies have started operating, while many others are already exploring possible investments. A large number of NGOs, significant elements of the Catholic Church, and other interested parties, however, remain opposed to the presence and the operations of the mining companies – mostly because of concerns about environmental despoliation that they associate with mining - and would prefer that the mining companies not be permitted to operate. Given this situation, GEM-3's role will not be to attract investments in mining (they are coming anyway, with or without an investment promotion effort), but, rather, to help make sure that the firms operate in such a manner as to help assure that their presence and investments remain welcome and remain legal. This essentially means that GEM will work with these firms to help them identify opportunities to demonstrate that they are good “corporate citizens” of Mindanao, and, possibly, to carry out various community projects which will underline that fact. The RLA, among others, will be invited to review and comment on proposed support activities.

### **3. WORKFORCE PREPARATION ACTIVITIES**

The success record of schools in the conflict affected areas in preparing children to be able to effectively and successfully compete in an increasingly globalized world is poor, and seems to be getting worse as time passes. The quality of education offered by the public school system in the Philippines as a whole has been declining by almost every measure for more than twenty years now. There are massive shortages of classrooms, qualified teachers, desks and chairs, textbooks, audio-visual materials, and virtually everything else that is needed for a quality education. Over-crowding of classrooms is standard – with class sizes averaging about 80 students per class. The poor quality of the education provided is being reflected in the results achieved by Filipino students in Asia-wide tests of achievement in different areas (e.g., math and science), with Filipino children now scoring almost at the bottom, and with test scores continuing on a downward trajectory. The decline in English-language proficiency of younger Filipinos as compared to their parents and grandparents has been widely noted, and is an increasing source of concern.

While the problems affect the entire Philippines education system, the problems clearly are worse in Mindanao than in the rest of the country, and within Mindanao, are worse in the conflict affected areas.

The decline in the quality of education offered is clearly rooted in the fact that education has been grossly under-funded for almost thirty years now. As the newly appointed Secretary of Education noted in a recent speech, while the average GRP budget for education has grown by an average annual rate of 2% over past decades, the average number of school-age children has annually grown by 2.7%. Accordingly, per capita expenditure per child in the Philippines has been declining annually for decades, and, at present, per capita expenditure per child is among the lowest in Asia.

Addressing and resolving the problems with the education system in the Philippines will take many years and will require heavy expenditures. Fortunately, it appears that there is a growing awareness of the severity of the problem among the political leadership of the Philippines, and one increasingly hears of plans to increase expenditure on education as and if government revenues continue to increase. Major donors to the Philippines (including USAID) are also increasingly allocating attention and resources to addressing some of the problems of the education system.

As mentioned, however, it will require many years, perhaps decades, to fix the education system and bring it to a position where it can turn out graduates fully able to compete in a globalizing and increasingly high-tech world. In the interim, because of the weaknesses in the current education system, a generation of Filipino children is at risk of being seriously disadvantaged in the competition with the children of other Asian nations for jobs and other opportunities. As mentioned above, the grave problems with the education system nationally are even more serious in Mindanao, and, within Mindanao, worse in the conflict-affected areas. This puts children in these areas at a disadvantage even when competing with the rest of the children of the Philippines.

USAID, through its Education programs and the GEM Program, is not going to be able to solve the problems of the education system in the Philippines. However, there are some interventions that have the possibility of substantially increasing the ability of children graduating from schools in Mindanao and the Sulu Archipelago to effectively compete with their peers in the rest of the country and in the Asia region. These include: continuing and expanding the program initiated under GEM-2 to introduce computer and internet education into schools in Mindanao; continuing and expanding the effort initiated under GEM-2 to encourage and assist parent groups to take steps to improve the quality of education offered in their children's schools; initiating a program aimed at helping assure that most students graduating from colleges (and, possibly, selected high schools) in Mindanao have English language skills sufficient to qualify them for employment in the tourism, business process outsourcing, maritime, health care, etc. industries; initiating a program which could place approximately 100 graduating college students per year into internships in leading Filipino and multinational firms (thereby significantly enhancing their knowledge of how business operates, and increasing prospects of their obtaining employment in the firms); initiating scholarship award programs aimed at encouraging and assisting students to stay in school and/or pursue particular courses of study; etc.

A brief discussion of some of these possible interventions follows.

- **Computer and Internet Education.** Through its “Computer Literacy and Internet Connection” (CLIC) Project, the GEM-2 Program has introduced computer and internet education into more than 500 high schools in the ARMM and other conflict affected areas of Mindanao and the Sulu Archipelago. Under the CLIC, schools are provided with up to ten computers, the hardware needed to access the internet (either satellite or microwave), various peripherals and software programs, and the teacher training needed to assure good utilization and maintenance of the facilities. Under GEM-3, this effort will be continued – with

**the balance of high schools in the ARMM and CAAM still needing CLIC facilities provided with them. (This would be about 250 high schools).** In those situations where high schools which are already beneficiaries of the CLIC Program need additional computers in order to allow students adequate access to computers, some additional computers may be provided. In addition, under GEM-3, USAID will also undertake to: **provide internet connections to the hundreds of high schools which will be receiving computers (but no internet connections) from GRP-implemented programs; provide computers and internet connection to approximately 500 elementary schools (selected primarily on the basis of size of student body, and location) – to be used primarily as a means of helping teachers to find and download resource materials and background material, etc. useful for teaching their subjects and upgrading their own skills.** GEM-3 will also undertake efforts to assure that selected teachers develop real expertise in the use of the internet for research and other purposes.

- **Assisting Parents Groups (PTAs) to Improve Education.** As a means of encouraging parents to make a greater financial contribution to the education of their children, and also as a means of enhancing the quality of education offered in schools in the ARMM and other conflict affected areas of Mindanao and the Sulu Archipelago, a project was initiated under GEM-2 under which USAID agreed to match – on a 50-50 basis – all funds raised by the PTAs which were to be used for improving the quality of education in their schools. The project was referred to as the Education Activity Support Effort (EASE). Through this matching grant project, several hundred school libraries, science labs, audio-visual rooms, home economics rooms, etc., were established. Some PTAs also increased the number of computers available for the students through this effort. The average matching grant was quite modest – usually less than \$1000.00 per school. This effort will be continued during GEM-3, with efforts made to provide matching grants to **approximately 150 - 250 schools per year.**
- **Employment-Qualifying English Language Skills.** Under this effort, an attempt will be made to assure that most students graduating from colleges in Mindanao (particularly those graduating from the less prestigious and less well-off institutions) have adequate English language skills to qualify them for jobs in those industries which require English speakers, e.g. tourism, maritime, nursing, business process outsourcing, etc. **GEM-3 will work with 10-20 colleges throughout Mindanao to assist them to modify or augment existing English language instruction programs as needed to produce the desired results.**
- **Scholarships.** In an attempt to help increase the likelihood that young people in the conflict affected areas: a) have access to particularly promising fields of employment; and b) are able to take advantage of training opportunities made available to them, **GEM-3 will provide needed financial support to up to 150 children per year to help enable them to continue their education or pursue specialized training.** This could be at either the secondary or tertiary level.

Depending on the type of education/training being pursued, scholarship awards could be as small as \$200 per year (i.e., enough to pay costs of school uniforms, transportation expenses, etc.) to as high as several thousand dollars per year (i.e., enough to pay cost of specialized training needed for employment in BPO or maritime industries, etc.). Education/training opportunities supported will be in the Philippines, with the bulk of the opportunities being in Mindanao.

- **Internships.** Under GEM-2, USAID supported a successful internship project which, annually, saw 40-50 recent graduates from Mindanao colleges placed into four-month long internships in the Philippines House of Representatives, with the objective being to provide them with exposure to how public policy is made. Under GEM-3, in addition to the continuation of that internship program (to be discussed in greater detail under “Governance Improvement Activities”), under GEM-3, USAID will support the implementation of an internship project focused on assisting recent graduates from colleges in the ARMM and other conflict affected areas of Mindanao and the Sulu Archipelago to understand more about how business operates. Hopefully, the internship project will also result in increased employment opportunities for the interns, and their fellow graduates. GEM-3 will attempt to identify some ten to thirty major Filipino or multinational firms, and negotiate arrangements under which those firms will provide rewarding temporary (three to five months) jobs for 1-4 interns each. GEM-3 will underwrite most of the costs of the internships, although attempts will be made to have the host firms meet a reasonable share of the costs of maintaining their interns.

GEM-3 staff will carry out detailed “feasibility studies” for the interventions discussed above, plus other possible interventions mentioned, immediately after initiation of the GEM-3 Program, and will present proposals to USAID for concurrence.

As indicated previously, in addition to the activities to be carried out under GEM-3’s Workforce Preparation component, USAID is also mounting a sizable education development effort under its Education Quality and Access to Learning and Livelihood Skills (EQUALLS) Program. EQUALLS is a multi-faceted initiative which includes activities focused on teacher training, curriculum development, out-of-school youth training efforts, distance education, and other areas. Like the GEM-3 Program, its efforts are also focused on the conflict-affected areas of Mindanao. Given the confluence of some proposed GEM-3 Workforce Preparation activities with some of the EQUALLS initiatives, it is likely that opportunities will emerge where co-ordinated efforts between GEM-3 and EQUALLS could redound to the advantage of both programs (e.g., perhaps EQUALLS could take advantage of the presence of computers/internet in schools that have received GEM-CLIC packages; perhaps GEM-3 could take advantage of the book distribution program being implemented under EQUALLS, etc.). GEM-3 staff will coordinate closely with EQUALLS staff in the planning and implementation of workforce preparation activities.

#### **4. GOVERNANCE IMPROVEMENT ACTIVITIES**

Governance improvement activities carried out under GEM-2 were focused on assisting the Government of the ARMM to address some of the key administrative and management problems it has faced since the creation of the ARMM. These included: ARMM Government relations with the national government; ARMM Government relations with donor countries and donor agencies; ARMM Government staffing issues; ARMM Government procurement procedures; etc. As a result of technical and policy guidance assistance provided under GEM-2, and of recommendations made by technical consultants, progress was made toward ameliorating some of the recurring problems the ARMM faced in these areas.

Notwithstanding the assistance provided under GEM-2 (and also notwithstanding the public administration assistance provided to the ARMM Government and ARMM LGUs under other USAID programs and by other donors), governance problems in the ARMM still remain severe. The ARMM Government remains overstaffed; there are perennial and recurring problems with accounting for funds; there are major and continuing problems with shortage of funds for critically important public services; etc.

The major problems faced by the ARMM Government and its inability to effectively address and resolve the problems, have had and continue to have major repercussions. The ineffectiveness of the ARMM is often mentioned by the MILF as one of the reasons why it rejects mere “autonomy,” and presses for independence from the Philippines, or some other relationship arrangement which will be short of full independence, but entail greater freedom of action than it perceives to be available under autonomy. The ineffectiveness is one of the reasons why many surveys indicate that large percentages of the people living in the ARMM would vote to have their provinces break away from the ARMM if separation was legally possible.

Governance improvement activities to be undertaken under GEM-3 will attempt to address (or at least begin to address) some of the basic underlying problems that contribute to the ineffectiveness of the ARMM Government, and its constituent LGUs.

**Revenue Availability of ARMM LGUs.** The principal problem it will attempt to address is the perennial major funding shortage of the ARMM Government and LGUs in the ARMM. There are two basic underlying reasons for the funding shortages - 1. Notwithstanding that LGUs in the ARMM have legal authority to impose and collect a range of local taxes (including property taxes and business taxes), virtually none of the LGUs in the ARMM collect any significant amounts of local taxes; and 2) the ARMM Government and LGUs in the ARMM are essentially 100% dependent on “block grants” from the national government for all their capital and recurrent revenue needs – and the national government, given its own fiscal difficulties, is not in position to provide anywhere near the actual amounts needed by the LGUs for their annual revenue needs.

Because of its own fiscal difficulties, it is unlikely that the national government will be able anytime in the near to medium future to significantly increase the amount of funds it annually provides to the ARMM Government and ARMM LGUs. Accordingly, if any progress is to be made in resolving the perennial funding shortage problems of the



ARMM and ARMM LGUs, it is going to have to come from improved revenue collection performance of the regional and local governments.

GEM-3 will identify some five to ten provinces or municipalities in the ARMM which (based on past experience, and on statements and assurances of the LGU leaders) appear most likely to be able and willing to successfully participate in the effort, and then work with those LGUs to assist them in taking steps which can result in sizable and continuing annual increases in locally collected revenues. While this is unlikely to happen during the period of implementation of GEM-3, a desirable end is that these LGUs ultimately reach a position wherein at least 50% of their annual recurrent expenditures are being met by locally collected revenues.

The GEM-3 approach will be to: 1. as and if requested and appropriate, provide or arrange for limited technical assistance to be provided to the LGUs to assist them in establishing the legal basis for, and then planning and implementing revenue collection efforts; and 2. to develop an “incentive package” under which the LGUs will receive material benefits (i.e. additional infrastructure projects) from GEM-3 as they reach and exceed annual revenue increase targets jointly agreed upon by the LGUs and GEM-3. (The GEM-3 technical assistance contractor will be charged with designing and obtaining USAID concurrence for the proposed “incentive package” shortly after GEM-3 commences). After successful experience with some of the initial LGUs who participate in the effort, the program will be expanded to additional LGUs in the ARMM and other conflict affected areas.

**Additional Governance Improvement Activities.** Some additional activities that may be undertaken under GEM-3 may include: efforts to clarify land ownership and land titling in both urban (primarily) and rural areas (as a means of trying to assure that real property can be used as collateral for bank loans); efforts to reduce and control public corruption; efforts to establish and implement rational systems for assigning numbers and addresses to houses and buildings (as a means of facilitating identification of individuals, facilitating postal deliveries, collecting taxes, etc.); and other activities that may be identified and approved by USAID during the course of implementation of GEM-3.

**Congressional Internship Program.** GEM-3 will also see the continuation of the “Congressional Internship Program” for recent graduates of colleges and universities in the ARMM and other conflict affected areas of Mindanao. As was the case under GEM-2, interns will be selected on the basis of their prospective ability to serve as private and public sector leaders in the future, and their ability effectively to articulate and represent the aspirations and thinking of people in historically under-served areas of Mindanao. Some two groups of individuals will be selected each year to serve in the Philippines House of Representatives for 4-5 month periods each, during which time they will have opportunities to learn about how public policy is made. Each group will be composed of 25 to 50 individuals. GEM-3 will: establish criteria for participation in the program; advertise the availability of the internships; set up and participate in selection committees; arrange for appropriate assignments of the interns in the House of

Representatives; establish systems for determining and paying necessary costs for the program (including allowances for the interns); etc.

## 5. FORMER COMBATANT REINTEGRATION

The principal USAID activity aimed at assisting former combatants reintegrate and become peaceful and productive members of society has been the Livelihood Enhancement and Peace (LEAP) effort. The LEAP activity was initiated shortly after the signing of the final peace agreement between the GRP and the MNLF in 1996. LEAP was a major component of both the GEM-1 and GEM-2 Programs. Under LEAP, some 28,000 former MNLF combatants (most of who had been fighting for some 20 years or more, were illiterate, and were largely without skills other than military skills) were provided the assistance they needed in order to be able to make a reasonable living for themselves and their families. For the most part, this meant that they were assisted to become small-scale commercial farmers of hybrid corn, rice, or seaweed. In the case of those former combatants who were to produce corn or rice, they were each provided access to two hectares of land (arranged by the MNLF), and then USAID provided all the production inputs (essentially, seeds and fertilizers) they needed to initiate production. In the case of former combatants who were to produce seaweed, they were each provided a lease (issued by their municipalities) to ¼ hectare of near-shore waters suitable for seaweed production, and then USAID provided them the needed production inputs (ropes, floats, planting material, etc.). The former combatants were also provided all the training and technical support, and marketing assistance they required. They were assisted through two production cycles, and then were “graduated” from the Program.

Under another element of the LEAP Program, the communities where the former combatants lived were provided with pre/post harvest facilities (i.e., warehouses, solar dryers, corn shellers, power tillers, etc.) which would be helpful in making their efforts more productive and profitable.

Several independent assessments of the LEAP Program concluded that the Program had been extraordinarily successful, and that its dual objective - of helping former MNLF combatants develop means to make a living on a continuing basis, and to therefore be less susceptible to appeals to again take up arms against the Government – had been fully realized.

As a means of helping assure that former MNLF combatants continue being able to make a reasonable living for themselves and their families, particular efforts will be made under the Business Development Activities Component of GEM-3 to include former MNLF combatants in the various activities implemented under that Component. **USAID will also continue to provide cooperatives/communities of former MNLF combatants with pre/post harvest facilities needed to make their efforts more productive and profitable.** (Approximately 50 cooperatives/communities will benefit).

Both as an inducement to move toward signing a peace agreement, and as a potential reward for doing so, the USG has frequently publicly indicated its readiness to provide

LEAP assistance to MILF combatants as soon as a genuine peace agreement is agreed to by the GRP and the MILF. The MILF, through its affiliated organization, the Bangsamoro Development Agency (BDA), has indicated its interest in having its combatants participate in and benefit from the LEAP activity.

At this point, as indicated in previous sections of this document, while peace negotiations are ongoing, and while both sides issue periodic statements indicating that they are getting close to an Agreement, no final peace agreement has yet been reached between the GRP and the MILF. **As such, the implementation of a LEAP activity focused on MILF combatants, as discussed and described herein, will wait the signing of a peace agreement.**

**MILF-LEAP.** The LEAP effort focused on the MILF will be similar to the LEAP effort which had been focused on the MNLF. The underlying objective of the MILF-LEAP effort will be to help assure that former MILF combatants have the means of making a reasonable living for themselves and their families on a continuing basis. The principal means of accomplishing this, again, will be through assisting the former combatants to become small-scale commercial farmers. It is anticipated that corn, rice, and seaweed will remain as the principal crops to be grown by the former combatants, but some additional commodities may also be selected, provided they make sense given the circumstances. (Note that production of corn, rice, and seaweed has significant advantages for the LEAP effort - 1. they are short gestation crops, and a harvest is obtainable after only a few months; 2. input suppliers are available throughout the region; 3. ready markets exist for the products; 4. they are relatively simple crops to grow, and even beginning farmers can quickly learn to successfully farm them. Any additional crop/commodity selected for production under LEAP must also have these characteristics).

As was the case with the MNLF-LEAP effort, former combatants selected for participation in the program will be provided all the production inputs, training, technical support, and marketing assistance they require in order to get started. In the case of land crops like corn and rice, production inputs and other assistance will be provided for two production cycles. In the case of seaweed, production inputs will be provided only once, while training and technical support will be provided for a period of about six months. After the period of LEAP assistance, participants will be expected to use proceeds from their harvests to purchase the next round of inputs.

As was the case with the MNLF-LEAP effort, production inputs will be provided directly by LEAP staff into the hands of the ultimate beneficiaries. Production training will be provided either by LEAP staff themselves, or by technicians and experts identified by LEAP staff whose services are arranged by LEAP staff (e.g., Municipal Agricultural Officers, Provincial Agricultural Officers, etc.), or both.

In most cases, in order to facilitate input distribution and the efficient provision of training and needed technical support, beneficiaries will be grouped into “clusters” of

between 30 and 100 individuals all of whom live near each other, and all of whose farm-lands are located in reasonable proximity to each other.

Oversight of the MILF-LEAP effort will be provided by a Management Committee (ManCom), which will be chaired by the Bangsamoro Development Agency (BDA), and which will include representatives from MEDCo, the MILF, and USAID. GEM-3 will serve as secretariat to the ManCom. Principal responsibilities of the ManCom will include: explaining the LEAP effort, its objectives, policies, rules, etc. to the MILF and its leaders with an eye to assuring full cooperation of the MILF in the implementation of the effort; making decisions and recommendations as to provincial/regional allocation of "beneficiary slots" for different LEAP training cycles; helping assure that all former combatants selected to participate in the LEAP effort are fully eligible and qualified for participation; as and when necessary, taking steps to assure that MILF leadership at regional, provincial, municipal, and lower levels fully adhere to LEAP policies and rules (particularly with respect to use of production inputs provided to former combatants under the LEAP effort) and assure that appropriate sanctions are levied against MILF leaders and members who misappropriate LEAP resources or otherwise violate LEAP rules and policies.

Note that if, for some reason, the BDA is not in position to play an effective role with respect to the implementation of an MILF-LEAP Program, some other appropriate organization will be selected to carry out the task.

Actual selection of former combatant beneficiaries of the MILF-LEAP effort will be the responsibility of Implementation Committees (ImpComs) established at regional or provincial levels. The ImpComs will be chaired by local MILF or BDA leaders, and include representatives from GEM-LEAP. Individuals selected for participation in the MILF-LEAP effort must meet the following criteria: 1. they must have been active combatants at the time the peace agreement is signed; 2. they must need the assistance offered through the MILF-LEAP effort. (Individuals who are already gainfully employed, or who already own or operate successful farms or other businesses, or who have (or belong to families which have) substantial levels of resources; etc. are not eligible to be MILF-LEAP beneficiaries.

Most commonly heard estimates are that the MILF currently has some 15,000 combatants. Of these, USAID's estimate is that perhaps 10,000 would require MILF-LEAP assistance to become peaceful and productive members of society. Both of these figures, however, are only estimates. It is possible that the number of former MILF combatants requiring LEAP assistance may be substantially higher or lower than the 10,000 figure mentioned herein. As and when a more definitive number is established, the MILF-LEAP effort will be modified accordingly.

USAID's estimate is that it will require two-three years to provide LEAP assistance to the approximately 10,000 former combatants currently estimated to need the assistance.

Under the MNLF-LEAP effort, USAID's cost per beneficiary was about \$800.00. Given price increases that have occurred since the time the MNLF-LEAP effort was started, our current estimate is that per beneficiary cost for an MILF-LEAP effort will be \$1,000. This would include approximately \$650 each as cost of production inputs to be provided to each beneficiary; and \$350 each as the amortized costs of beneficiary training and program management.

As was the case with the MNLF-LEAP effort, the MILF-LEAP effort will also include a program under which pre/post harvest facilities are made available to cooperatives substantially composed of former MILF combatants who have "graduated" from the LEAP effort, or to communities which include substantial numbers of the LEAP graduates. Approximately 200 cooperatives and/or communities will benefit.

## **6. OTHER ACTIVITIES**

In addition to the activities discussed above, it is anticipated that, under GEM-3, USAID will continue the very productive GEM-1/GEM-2 practice of being alert to additional problems and opportunities that may emerge during the implementation period, and be prepared to allocate staff and other resources to assist Mindanao organizations and individuals to address those problems or take advantage of those opportunities. Among these "Other Activities" that may be addressed under GEM-3 are matters such as: resolution of various "feuds" among groups in the conflict-affected areas that have their origin in disputes over land or other resources; agrarian reform and ancestral domain issues; improved and more efficient shipping services and port operations; establishment/improvement of free trade zones/export processing zones/etc.; utilization of various "conflict management" techniques and processes as a means of attaining and consolidating peace in the region; establishment of "emergency employment" schemes and mechanisms; establishment of "centers of excellence" for research and other support services needed for production/export of key commodities produced in the conflict affected areas; establishing "e-Centers" in various communities which can be useful to people in the community in availing of public services, ascertaining market prices for various commodities, etc.; assisting LGUs and other organizations to take advantage of assistance resources potentially available through programs of other donors; expansion of internet availability in the conflict-affected areas; expansion of telecommunications services in the conflict affected areas; assistance in the modification of the ARMM Organic Act and similar key pieces of legislation; etc.

Exploration as to possible GEM-3 involvement in these matters will be undertaken during the implementation of the GEM-3 Program.

As was the case under previous GEM Programs, it is anticipated that GEM-3 staff will establish extensive networks of contacts throughout Mindanao, and, through these contacts, will become aware of new issues and opportunities affecting Mindanao as they arise. USAID concurrence will be required prior to any significant GEM-3 expenditures in connection with these activities.

## **D. Support Activities**

### **1. COMMUNICATIONS AND INFORMATION**

As was demonstrated during GEM-1 and GEM-2, an effective communications/information effort can greatly enhance prospects for attainment of Program objectives. The continuing stream of GEM-generated news articles about positive developments in Mindanao, including positive developments related to GEM activities, has played a useful role in countering the impression created by most news reports that all of Mindanao is a battleground – and thus has helped keep business people interested in doing business in Mindanao, and has helped keep tourists and visitors coming to at least some parts of Mindanao. News articles prepared and placed by GEM have also played a major role in generating public support for adoption of government policies more conducive to sustained economic progress of Mindanao (e.g., increases in infrastructure budget, support for establishment of “ro-ro” facilities, etc.).

A similar Communications and Information program will be carried out under GEM-3. GEM will produce at least ten news articles each month for placement in both the Manila and Mindanao press, and at least five articles per year for placement in international media. The Communications/PR unit will also arrange 10-20 radio/TV appearances per year for GEM staff, at which the GEM staff will have the opportunity to discuss activities being carried out under the GEM-3 Program, in conjunction with GRP officials, and thereby help generate greater public understanding and support for the activities. The unit will also prepare press releases as necessary in conjunction with various GEM-3 (or other USAID-program or USG-related) “events” such as MOU signings, infrastructure hand-over ceremonies, visits to GEM-3 sites of distinguished guests, etc. (It is estimated that 40-60 press releases will be required each year). The Communications and Information Unit will also help arrange one or two briefings per year for various press/media groups in Manila and Mindanao, at which they will attempt to assure that the audience obtains a better understanding of the situation in Mindanao, and therefore will be better able to accurately report the situation in Mindanao.

The Communications and Information unit will continue to produce promotional and informational materials about Mindanao, and doing business in Mindanao, that will be useful to individuals doing business in Mindanao, or contemplating doing so. These materials will include pamphlets, brochures, videos, cd-roms, and maps. Some of these will provide information on Mindanao as a whole; others will provide information on specific areas of Mindanao, specific business sectors, etc. GEM-3 will continue to develop and maintain a comprehensive and user-friendly website containing key information about the GEM Program and about Mindanao.

The Communications and Information unit will coordinate with the Embassy’s Public Affairs Section (PAS) on all media coverage for high-level USG visits to GEM-3 and other USAID project sites in Mindanao. The Communications and Information Unit, through the CTO, will also regularly update USAID on its media outreach activities to help ensure optimal impact of all GEM, USAID and PAS communications efforts.

## 2. CROSS-CUTTING GEM SUPPORT SERVICES

Because needs in Mindanao are so great, and because peace and development in Mindanao is so important to the entire Philippines, and to the region, Mindanao will continue to be a major focus of USAID activities for several years to come. USAID will be implementing projects and program in Mindanao in all sectors – health and family planning, governance improvement, environmental management and protection, education improvement, and economic growth.

Because GEM-3 will be the USAID activity with the greatest “on the ground” presence in Mindanao, and the conflict affected areas of Mindanao, the GEM-3 Program will be called upon to collaborate with and provide a range of support services for other USAID projects and activities, and for the U.S. Embassy. These services will include:

- Arranging introductions for staff of other USAID activities to public officials at all levels, and to leadership of various significant groups (cooperatives, private firms, trade and producer associations, the MNLF, chambers of commerce, etc.);
- Providing information on past and current experience working with various communities and organizations, and providing suggestions as to appropriateness of those communities and organizations as “target areas” or “partners” for other USAID activities.
- Providing information on “doing business” in different areas of Mindanao (e.g., availability and cost of office space, office personnel, security services, telecommunications and internet facilities, transportation facilities, housing, etc.).
- Providing information and guidance regarding the security situation in various areas. (Note – in these matters, GEM staff will rely on information obtained from USAID and the Regional Security Office, as well as from police, military, and other sources and contacts throughout Mindanao). GEM will produce “Security Reports” on at least a bi-weekly basis, and make these reports available to staff of other USAID-supported projects and activities in Mindanao, other donors, etc. These reports will provide information and guidance on: trouble-spots to avoid, possible emerging threats, etc.
- Providing assistance in obtaining services of communications/public relations specialists, and writers who may be needed to prepare press releases, news articles about their activities, etc., and to assist in having the articles placed in appropriate media. As requested, and as appropriate, arranging press coverage for events associated with other USAID projects or Embassy-related events. As requested and appropriate, GEM may also directly provide these services to other projects using its own staff.

- Helping to organize various ceremonies and related “events” sponsored by other USAID projects/activities (e.g., MOU signings, activity launchings, turn-over ceremonies, etc.) which can help create greater awareness of the activities and facilitate attainment of the project/activity objectives.
- Helping to organize visits to the various USAID-supported activities for visiting USAID and State Department officials, and other distinguished visitors who wish to familiarize themselves with Mindanao and USAID activities in Mindanao. Assistance could be in terms of: arranging appropriate security for the visits; setting up appointments with key/knowledgeable individuals; making hotel bookings; etc.

In order to best be able to provide support for other USAID activities, and in order to be able, where possible, to assure optimal synergy between activities carried out under GEM-3 and other USAID activities in Mindanao, GEM-3 staff will regularly meet with USAID and contractor/grantee staff responsible for managing other activities to share information on current and planned activities.

### **3. SPECIAL ACTIVITIES FUND**

In order to facilitate implementation of the various efforts and activities discussed above, GEM-3 will include a Special Activities Fund (SAF), to be managed by the GEM-3 contractor. The SAF will be used to meet certain expenses incurred by organizations GEM is working or collaborating with, for the conduct of activities which are supportive of the attainment of GEM-3’s peace and development objectives. The SAF will also be used by GEM to meet costs of various non-recurring activities carried out under GEM-3 (e.g., studies, conferences, consultancies, travel, publications, etc.). While, on occasion, GEM-3 will provide grants to cooperating organizations, this will not be the customary procedure. For the most part, funds will not be transferred to cooperating organizations. Rather, GEM-3 will procure the goods or services required and make them available to the cooperating organizations. SAF monies may be used to meet costs associated with the following activities:

- Production and printing of promotional pamphlets, brochures, videos, cd-roms, etc. (Note – this is subject to regulations and procedures specified in the FAA provisions regarding Communications Products).
- Preparation of special studies, assessments, feasibility studies, evaluations, surveys, etc.
- Preparation for and conduct of conferences, seminars, workshops, training programs, study tours, turn-over ceremonies, etc. This could include costs of venue and facilities, booth rentals, signage, honoraria for resource persons when necessary, conference materials, travel of special guests and resource persons, etc.



- Support for “institutional development” of key BSOs and other organizations, and for implementation of certain activities of these BSOs and other organizations.
- Limited commodity and technical support for cooperating organizations.
- Costs of domestic and international travel of key partners and cooperating individuals, and GEM staff, when necessary to enable their participation in activities and events important for the attainment of GEM-3 objectives.
- Costs associated with receiving and briefing potential investors, and visiting dignitaries.

The SAF will also be used to meet costs associated with design and implementation of GEM-3 activities which are identified during the course of implementation of GEM-3. This would include, for example, most activities undertaken in the “Governance Improvement”, “Business Development” and “Other Activities” components. It would also include some of the activities carried out under the Workforce Preparation component.

All proposed expenditures under the SAF will be approved in advance, in writing, by USAID (i.e., by the CTO for the GEM-3 contract), and by other members of the Steering Committee for the GEM-3 Program as may be appropriate. Appropriate cost-sharing arrangements with recipients of SAF support will be negotiated by the contractor managing the GEM-3 Program, and will be approved in advance by USAID. It is anticipated that cost sharing will characterize virtually all SAF expenditures.

#### **E. Summary of Targets**

Under the GEM-3 Program, USAID will work to bring into existence a more prosperous and more peaceful Mindanao. Specific results we will attempt to bring about include the following:

- Approximately 1000 barangays in the conflict affected areas will have received Barangay Infrastructure Projects which will contribute to expansion of economic opportunity in the area, or will facilitate delivery of social services, or will otherwise improve quality of life in the community.
- Approximately 15-20 “transformational” Regional Impact Project Packages will be undertaken, with each “package” including several mutually-reinforcing infrastructure projects which, collectively, offer good promise of catalyzing a significant expansion of existing productive activity, or which can make possible the emergence of new business and industry.
- Up to five BSOs working in tourism, BPO, and aquaculture sectors will receive institutional development support needed to become viable organizations providing useful services to firms in their sectors.

- Some six-ten chambers of commerce in conflict affected areas which have not previously received assistance (e.g., chambers in Upi, Carmen, Pikit, Parang, etc.), will receive the institutional development support they need to become effective advocates of business growth in their areas.
- Approximately fifteen (15) producer associations which previously received institutional development support from GEM will be assisting their member firms increase the competitiveness of their products by providing them information and training in improved production practices, packaging, product transport, and sales procedures.
- Approximately seven chambers of commerce which previously received institutional development support from GEM will be playing a more active role in advocating improved LGU performance in revenue generation, corruption control, etc., and in assisting local schools to improve the quality of education offered.
- Approximately twenty (20) BSOs will have received assistance needed to help them implement specific events important to the growth of business in their areas or sectors.
- Export or out-shipment to Philippine markets outside of Mindanao of GEM-3 “targeted commodities” like fresh and processed fruit and vegetables, tuna, carageenan, and high-value marine products (abalone, grouper, sea cucumber, etc.) will triple by the end of GEM-3 (measured both by volume and by value).
- At least one sizable tourist resort will be established in a previously conflict affected area; at least one BPO firm will have established a facility in the conflict affected area; GEM-3 will be assisting 3-5 major mining firms to establish and implement “community projects” in their areas to help demonstrate the firms’ “good corporate citizenship.”
- Approximately 250 high schools in the conflict-affected areas will receive assistance needed to initiate computer and internet education.
- Approximately 300 high schools which received computers from GRP or other donor programs, but which did not receive internet connections, will be assisted to connect their computers to internet.
- Approximately 500 elementary schools in conflict areas will be provided with two computers and internet connection to be used by teachers to find and download resource materials, background material, etc. useful for teaching their subjects and upgrading their own skills.

- PTCAs of approximately 1000 elementary or high schools in the conflict area will receive “matching grants” (averaging less than \$1000 per school) to augment their own cash contributions to improvement of education in their schools.
- Up to twenty colleges in Mindanao will receive assistance to allow them to augment existing English-language instruction programs so as to help assure that most students graduating from those colleges have sufficient English language ability to qualify for employment in tourism, maritime, nursing, and BPO sectors.
- Up to 150 secondary/tertiary school-age children will receive the financial support needed to allow them to take advantage of exceptionally desirable training opportunities or to remain in school.
- Approximately sixty recent graduates of colleges in the conflict affected areas will annually receive internships providing for temporary 3-5 month jobs in leading Filipino or multinational firms.
- Five to ten LGUs in conflict areas will substantially increase amount of revenue collected through property and business taxes as a result of GEM-3 assistance.
- Between 50 and 100 recent graduates of colleges in the conflict affected areas will annually receive internships under which they will each work in the Philippines House of Representatives for 3-5 month periods.
- Approximately fifty (50) cooperatives/communities of former MNLF combatants will be provided pre/post harvest facilities needed to make their production efforts more profitable.
- (If GRP-MILF Peace Agreement reached) Approximately 10,000 former MILF combatants will be provided assistance necessary to allow them to earn a reasonable living for themselves and their families on a continuing basis.
- (If GRP-MILF Peace Agreement reached) Approximately 200 cooperatives composed of former combatants will be provided pre/post harvest facilities needed to make their production efforts more profitable.

## V. IMPLEMENTATION ARRANGEMENTS

**Counterparts.** The Mindanao Economic Development Council (MEDCo) will continue to be the principal GRP counterpart organization. There will also be substantial interaction with the ARMM Government, with the Office of the Presidential Advisor for the Peace Process (OPAPP), with the leadership of the MNLF, and with LGU officials at provincial, municipal, and barangay levels. GRP oversight for the GEM-3 Program will be exercised principally through MEDCo’s chairmanship of both Steering and Management Committees for the GEM Program. The GEM Steering Committee (Steercom) will be responsible for: reviewing and concurring with Annual Plans prepared

by the technical assistance contractor; proposing possible areas for GEM intervention, monitoring progress toward attainment of GEM-3 objectives, and for provision of overall guidance on major policy matters. The Steering Committee will be chaired by the Chairman of MEDCo. Other members of the Steering Committee could include representatives of the Mindanao Business Council, the ARMM Government, NEDA, and USAID. It is anticipated that the Steering Committee will meet quarterly. The Management Committee (Mancom) will be chaired by the Executive Director of MEDCo. The Mancom will have responsibility for monitoring all activities being carried out under GEM-3, for concurring with proposals for major SAF expenditures under GEM-3, for facilitating the attainment of necessary government clearances, visas, customs and tax exemptions, etc. for GEM-3 staff and for commodities procured for and/or through the GEM-3 Program. It is anticipated that the GEM Mancom will meet monthly.

To the extent possible, it is anticipated that most of the funding for the GEM-3 Program will be obligated through a bi-lateral agreement between USAID and the GRP. It is possible, however, that, under some circumstances, unilateral obligation of funds directly into a contract or grant may be desirable. As and when USAID determines this to be preferable, unilateral obligation of funds will be accomplished.

**USAID Management.** Principal responsibility for management of the GEM-3 Program will lie with USAID's SO-12 team. Members of USAID/Philippines' Mindanao Working Group will be kept abreast of key developments in the implementation of the Program, and key issues affecting the Program.

**Offices.** A headquarters office for GEM-3 will be maintained in Davao City, in Mindanao. GEM satellite offices will also be maintained in Cotabato City, Zamboanga, and Cagayan de Oro. Depending on the needs of the GEM-3 Program, and with concurrence of USAID, additional satellite offices may be established in other cities in Mindanao and the islands of the Sulu archipelago, e.g., Butuan, Bongao, General Santos City, Iligan. A small Manila liaison office may also be authorized if it appears to be necessary.

**Staffing.** Most of the staff needed for implementation of the GEM-3 Program will be obtained through a contract with an appropriately qualified technical assistance firm. The firm will be selected following full and open competition. The prime contractor (i.e., the firm contracted to provide most of the technical and other assistance needed by USAID for implementation of the GEM-3 Program), will propose, for USAID's concurrence, appropriate staffing given GEM-3's objectives, and the proposed approach for attaining those objectives. The prime contractor's Chief of Party will be a U.S. citizen. All other staff may be either expatriate or Filipino, depending on the type of expertise being sought, and the availability of that expertise. Because of security considerations as well as other factors, it is anticipated that the great majority of GEM-3 staff will be Filipino, with long-term expatriate assistance utilized only on a limited basis. While suggestions as to staffing will be provided to firms interested in bidding on the GEM-3 contract (via the

RFP issued in connection with that contract), firms will be free to propose any staffing arrangements they deem appropriate.

**Donor Coordination.** As has been the situation under GEM-1 and GEM-2, there will be extensive cooperation and coordination with other donors during the implementation of the GEM-3 Program. Security information regularly produced by GEM-3 will be regularly shared with other donors; GEM-3 staff will participate in various donor working groups established with an eye to assuring that donors obtain maximum “development payoff” from their various programs and activities; upon request, GEM-3 may provide financial and/or staff support to facilitate operations of various donor working groups; etc. Also upon request, GEM-3 will assist other donors in the identification of possible program activities the other donors may wish to support, and, under certain circumstances, may assist in the implementation of those activities. (In some cases, it is anticipated that “trust fund-type” arrangements will be established between USAID and other donors, under which GEM-3 will actually implement activities financed by other donors. As and if other donors do provide funding under “trust fund-type” arrangements for implementation or expansion of authorized GEM-3 activities, the GEM-3 Program Authorization will be amended to increase the authorized level of spending accordingly).

**U.S. Military Coordination.** Similar to the situation with respect to other donors, there has been a good deal of cooperation and coordination between USAID and the U.S. Military during the implementation of GEM-2. It is anticipated that this cooperation and coordination could be further expanded during the implementation of the GEM-3 Program. As in the case with some other donors, it is also possible that financial resources may be made available by the U.S. Military to USAID during the course of implementation of the GEM-3 Program to allow an expansion of GEM-3 activities in particular areas of interest to the U.S. Military. As and if that occurs, again the GEM-3 Program Authorization will be modified to increase authorized spending levels accordingly.

**VI. FINANCIAL PLAN**

It is anticipated that the GEM-3 Program will have a life of five years. The level of activities to be carried out under GEM-3 will require a significant increase in the level of expenditures. The funds would be used for the following:

CLIN	DESCRIPTION	TOTAL EST COST PLUS ANY FIXED FEE
01	Infrastructure Development	\$65,000,000 /1/
02	Business Development	
03	Workforce Preparation	
04	Governance Improvement	
05	Special Activities Fund	\$ 18,200,000 /1/
	Total Estimated Cost – Basic Contract	\$ _____

Fixed Fee (if any) – Basic Contract	\$ _____
Total Cost Plus Fixed Fee – Basic Contract	\$ _____

Optional Component

06	Former Combatants Reintegration	\$ _____ 2/
	Total Estimated Cost – Basic Contract	\$ _____
	Fixed Fee (if any) – Basic Contract	\$ _____
	Total Cost Plus Fixed Fee – Basic Contract	\$ _____

/1/ This is a plug figure. All offerors shall use this figure

/2/ The funds earmarked/authorized for former combatant reintegration would not be used unless an acceptable peace agreement is reached between the GRP and the MILF, and USAID is requested to implement an FCR activity by the GRP and the Embassy).

Note: The CLINs are illustrative. Offerors may change the number of CLINS or their titles as they may deem appropriate.

USAID is aware that a substantial level of resources will be required for full implementation of all activities contemplated under GEM-3. We are also aware, however, that future funding availability is uncertain. While USAID is confident that activities and expenditures discussed here would constitute a sensible and reasonable investment by the U.S.G., and would contribute to a more peaceful and more prosperous Philippines, and would result in the Philippines becoming a less congenial area for terrorist elements hostile to the U.S., we are also aware that there are many competing claims on U.S.G. resources. Because of the uncertainty of the funding situation, the GEM-3 Program has been designed to be expandable or “shrinkable” depending on annual funding availability. Numbers of infrastructure projects, school computerizations, etc. undertaken annually can be expanded or decreased as funding dictates.

USAID also contemplates aggressively seeking financial participation of other donors, and, possibly, other U.S.G. elements, for the implementation of some activities discussed in this document.

**VII. MONITORING, EVALUATION AND AUDIT PLANS**

In close coordination with implementing partners, the technical assistance contractors will develop a performance monitoring plan. This plan will identify expected results, performance indicators, baseline and annual targets, data source(s), collection frequency, and responsibility. Based on the annual work plan, the contractors will prepare monthly progress reports, identify implementation challenges and recommendations to facilitate and improve performance. USAID/Philippines, MEDCo, and other implementing partners will monitor progress on a regular basis.

In order to ensure that completed infrastructure and facilities (including equipment) are being used as intended, the technical assistance contractor will also develop a post completion monitoring plan. This plan will provide information on the status of infrastructure and facilities after turn-over to the LGU or other beneficiaries.

An evaluation is planned at the end of the third year of Program implementation to assess performance, determine impact, and validate program design. This will provide the basis for deciding on an extension of the primary contract beyond five years. USAID/Philippines and the GRP will consider the evaluation results in determining future directions.

USAID will also arrange for audits when deemed necessary and to comply with any USAID audit requirements.