

## Philippines

**The Development Challenge:** Corruption and conflict continue to impede the Philippines' economic and social development. Forty-six percent of the country's population lives on \$2/day or less, and per capita income growth between 1975 and 2001 was 86 percent -- a fraction of its neighbors: Indonesia registered 423 percent, Thailand 261 percent, Malaysia 169 percent, and China 235 percent. The Philippines continues to suffer some of the worst effects of underdevelopment: a 2.36 percent rate of population growth; destructive exploitation of natural resources, including the Philippines' unique marine and terrestrial biodiversity; and vulnerability to political instability, including nationwide armed conflict by the communist NPA (declared a terrorist organization by the U.S. in 2002) and separatist violence in Muslim Mindanao. Nevertheless, the Philippines has maintained its democratic institutions and its market-based economic system, as well as its historic ties with the United States. The country made some important strides forward in 2002 and President Gloria Macapagal-Arroyo provided strong and consistent support for President Bush's efforts on the global war on terrorism.

**The USAID Program:** USAID/Philippines' assistance is organized around four strategic areas: Muslim separatist conflict in Mindanao; corruption and poor economic governance; damaging mismanagement of the Philippines' unique natural resources; and the impacts on health and economic growth of the high number of unwanted pregnancies, the recent resurgence of tuberculosis, and potential vulnerability to HIV/AIDS. Reducing corruption and mismanagement through decentralization, private-sector involvement, and administrative reform are cross-cutting approaches for all areas. Assistance in all four areas has particularly been increased in Mindanao since the resurgence of fighting there in early 2000 and the events of 9/11.

USAID has an exceptionally close working relationship with both local and national figures working to manage the long-running Muslim separatist conflict in Mindanao and the Sulu Archipelago. The Governor of the Autonomous Region in Muslim Mindanao (the ARMM) has said "While everyone makes promises, USAID is the one who delivers." USAID's assistance, which started after the Peace Agreement of 1996, will, by its conclusion, have reached virtually every one of the 25,000 ex-combatants of the Moro National Liberation Front (MNLF) who needed assistance to reintegrate themselves into the peacetime economy. USAID works with MNLF officials to identify appropriate beneficiaries and to put directly into their hands the tools, training, and inputs they need to raise enough seaweed, corn, and rice to support their families. As a result, the MNLF Vice-Chairman explained that the MNLF's ex-combatants stayed aloof from the hostilities in 2000 because "Now we have something to lose." The State Department is distributing a video presentation of this program worldwide as a model for U.S. relations with the Islamic community.

As the MNLF Vice-Chairman's remarks indicate, economic conditions are a fundamental factor in conflict in the Philippines. In addition to assistance to re-integrate ex-combatants, USAID addresses economic growth and job creation in Mindanao in other ways. Microfinance field programs are achieving dramatic successes using local resources and a new model of management-based micro-lending, winning awards in the U.S. and attracting international attention. Commodity development programs and working through private producers' association have increased farmer incomes by successfully moving them into new value-added crops. Programs to strengthen economic governance are helping communities increase forest and coastal zone productivity.

The relationship between the U.S. and the Muslim community in Mindanao was strengthened by the social sensitivity, as well as the military effectiveness, of U.S. troops during the joint training exercises in 2002. USAID plans to continue and expand community infrastructure construction to complement the facilities put in place by the U.S. armed forces in 2002 and will begin a program to strengthen the seriously deteriorated schooling system in the ARMM for children whose only alternative is often foreign-subsidized Islamic schools. USAID is also stepping up health, environmental, and energy programs in the conflict-affected areas.

Nationally, the continued failure of the Philippine economy to attain the success achieved elsewhere in the region has turned the spotlight onto governance factors and corruption, especially after former

President Estrada's downfall in 2000-01. USAID's anti-corruption assistance focuses on revenue administration, government procurement, and judicial strengthening. USAID has been the principal source of technical assistance to reformist Commissioners of Internal Revenue appointed under President Arroyo, helping them to address a preoccupying downturn in revenues in 2002, through an unprecedented series of enforcement actions, as well as a major institutional restructuring proposal now being debated in the Philippine Congress. In addition, a major reform of Philippine government procurement rules was kicked off in January 2002, when President Arroyo signed into law a new Procurement Code developed with USAID's assistance. Estimates that government spending is inflated by as much as 20 percent, or roughly \$2 billion a year, due to procurement irregularities, show the very substantial scope for potential savings.

Governance is especially weak in regulation of public utilities, including telecommunications, ports, and airlines, where USAID supports both governmental and non-governmental stakeholders in reform efforts. USAID provides critical technical assistance for an energy-sector reform program that may be a make-or-break initiative for an economy confronted with high electricity prices, looming power shortages, and investor skepticism. USAID also assists reforms that are vital to the transition to less-polluting and renewable sources of energy and improved air quality, including the promotion of natural gas vehicles for the transportation sector. USAID increasingly approaches environmental management, in Mindanao and nationally, as a governance issue. Assistance emphasizes strengthening transparency and accountability in local governance and natural resource use rights (often vested in communities) to create incentive-compatible management systems for vulnerable natural resources.

USAID's assistance for health recognizes the Government's devolution of its health services to local government levels for family planning, immunization programs, TB and malaria management, and micronutrient supplementation. USAID also focuses on stimulating the private sector to play a greater part in improving access to quality health services for those who can afford to pay, even in non-traditional areas such as family planning and tuberculosis management, thus relieving the public sector of the burden. This program seeks ways of financing health care through internal mechanisms in the country, thus reducing the country's long-term donor dependency.

**Other Program Elements:** USDA's \$40 million Title-I loan program for the Philippines was supplemented by an \$8.3 million grant under Section 416(b) in FY 2002. Local-currency proceeds of market sales provide budget support to the GRP, part of which has been directed to agricultural development. USAID/Washington assistance to agricultural research at the International Rice Research Institute has been substantially reduced, but co-financing with the mission of microfinance assistance continues. A new agreement under the Tropical Forestry Conservation Act will provide budgetary support to civil society groups to conserve highly threatened tropical forests. The ongoing regional U.S. Asia Environmental Partnership (USAEP) funds technical assistance, training, and exchanges to support the improved management of toxic and hazardous wastes, and the integrated management of solid wastes. The Department of State, Treasury, Justice, and Energy provide training and technical assistance in important areas like tax administration, privatization of the energy sector, and control of money laundering.

**Other Donors:** The major donors to the Philippines are the Japan Bank for International Cooperation, the Asian Development Bank, and the World Bank. These institutions finance infrastructure development and sector policy programs. USAID collaborates closely with ADB and World Bank staff on sectoral policy in energy, basic grains, bank and non-bank financial regulation, and expenditure management. The IMF has a small but influential technical-assistance program that includes tax administration, one through which USAID and the Embassy maintain an active dialogue. The UNDP has been active in Mindanao in coordinating assistance of other donors who complement USAID's programs, and the Japanese are now coordinating their Mindanao planning with USAID. Bilateral assistance from Australia and Canada includes an emphasis on corruption and governance that complements USAID's. Other bilateral donors with substantial programs, including Germany and other EU members, emphasize direct assistance to small enterprises and small farmers.

## Philippines PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2001 Actual	FY 2002 Actual	FY 2003 Prior Request	FY 2004 Request
Child Survival and Health Programs Fund	9,450	25,599	24,550	22,000
Development Assistance	30,334	24,456	26,609	23,068
Economic Support Fund	7,202	21,000	20,000	20,000
Supplemental--ESF	0	12,000	0	0
<b>Total Program Funds</b>	<b>46,986</b>	<b>83,055</b>	<b>71,159</b>	<b>65,068</b>

### STRATEGIC OBJECTIVE SUMMARY

492-001 Mindanao				
DA	200	0	0	0
492-002 Economic Governance				
DA	6,402	5,592	9,192	8,708
ESF	3,991	10,000	5,000	5,000
492-003 Family Planning and Health				
CSH	4,500	13,685	24,550	22,000
DA	17,865	0	0	0
ESF	0	4,000	0	0
492-004 Environment and Energy				
DA	4,367	13,664	13,167	10,360
492-007 Reduce HIV/AIDS and Selected Infectious Diseases				
CSH	4,950	0	0	0
492-010 Conflict Resolution in Mindanao				
DA	1,500	5,200	3,750	3,000
ESF	3,211	19,000	15,000	15,000
1/ 492-XXX ANE Regional US-AEP				
DA	0	0	500	1,000
TRANSFER				
CSH	0	11,914	0	0

492-010 includes \$10M of the FY 2002 Supplemental - ESF.

492-003 includes \$2M of the FY 2002 Supplemental - ESF.

1/ USAID plans to obligate \$500,000 in FY 2003 and \$1,000,000 in FY 2004 under the regional U.S.-Asia Environmental Partnership (498-009) for activities in Philippines.

**Data Sheet**

**492-001: No Summary and/or Pillar information entered for this SO.**

## Data Sheet

<b>USAID Mission:</b>	Philippines
<b>Program Title:</b>	Economic Governance
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	492-002
<b>Status:</b>	Continuing
<b>Proposed FY 2003 Obligation:</b>	\$9,192,000 DA; \$5,000,000 ESF
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2004 Obligation:</b>	\$8,708,000 DA; \$5,000,000 ESF
<b>Year of Initial Obligation:</b>	FY 1995
<b>Estimated Completion Date:</b>	FY 2007

**Summary:** USAID's Economic Governance program addresses the issues most fundamental to ending the Philippines' pattern of stunted economic growth: conflict and corruption. Special attention is being given in FY 2003-04 to tax administration, due to the overwhelming importance of fiscal revenue for economic stability and social infrastructure, as well as the widespread perception of tax administration as a sore point in Philippine corruption. Improved economic governance also contributes to the investment and job growth needed to reduce poverty and to create an economic environment conducive to conflict reduction in Mindanao. It furthers U.S. interests in combating terrorism and promoting stability in the Asia region, and enhances trade and investment opportunities by expanding the Philippine market, making commercial and financial transactions with the Philippines more transparent, and protecting intellectual property rights.

### **Inputs, Outputs, Activities:**

#### **FY 2003 Program:**

Make Institutions, Policies, and Practices More Transparent and Accountable (\$7,192,000 DA; \$4,000,000 ESF). This program implements a well-integrated Economic Growth and Democratic Governance program of technical assistance, training, civil-society support, legislative support, and institutional development. Initiated in 1998, this program provides support to achieve each of a number of specific "policy results". Projects are designed in a flexible manner, jointly with the Philippine counterparts who lead the effort to achieve each result. Outputs include information collection, analysis, and dissemination; development of policies, and legislative and regulatory drafts; legislative briefings; new civil-society organizations with sectoral expertise; strengthened governmental institutions responsible for implementing or enforcing reforms; and strengthened legal-judicial systems. The most important results targeted relate to money laundering and the Philippines' "non-cooperative" status with the Financial Action Task Force, tax administration, government procurement reform, and banking and securities regulation.

Remove Competitive Barriers to Development of Infrastructure and Trade (\$2,000,000 DA; \$1,000,000 ESF). The integrated Economic Governance program also uses its innovative assistance to support privatization; open and equal access to markets and inputs; transparency and public participation in regulated; decentralized, competitive service delivery by local governments and the private sector; and competitive procurement for infrastructure such as roads, ports, shipping, aviation, power, telecommunications, and information technology. Initiatives continue to improve protection of intellectual property rights under a program to address the factors that put the Philippines on the U.S. Priority Watch List. Assistance also continues in the multi-year program to strengthen customs administration. USAID's program is crucial to helping the GRP respond constructively to the agreements reached in the U.S.-Philippines Trade and Investment Council (TIC).

These programs are implemented in an integrated framework by Development Alternatives, Inc., with IBM and Transnational Public Policy Advisors as sub-contractors. Implementing grantees include The Asia Foundation and several Philippine non-governmental organizations. ESF concentrates on combating

corruption in governance, particularly at the local level and in Mindanao, and in addressing national level policy, institutional, and regulatory issues relating to corruption in governance, finance, and commerce. DA primarily addresses competitiveness and openness of the economy.

**FY 2004 Program:**

Multi-year Reform Efforts to Make Institutions, Policies, and Practices Transparent and Accountable Continued (\$6,250,000 DA; \$4,000,000 ESF). This program will increase emphasis on corruption mitigation. New counterparts may include the Ombudsman's office, which is in charge of prevention and prosecution of corruption in public administration. Expanded technical assistance and training is expected for improving in-court and out-of-court judicial systems, including mediation, and in implementing institutional reforms in tax administration and government procurement. Expanded assistance to rationalize and control public expenditure management is expected. New technical assistance and training for government accounting reforms is possible.

Remove Competitive Barriers to Development of Infrastructure and Trade (\$2,458,000 DA; \$1,000,000 ESF). Expanded assistance is expected for institutional reform in the Bureau of Customs. Implementation will continue with technical assistance and training in areas related to infrastructure: contracting and procurement, monitoring of performance, regulation and rate setting, and privatization and out-sourcing. A special effort will be made to address issues that arise with infrastructure projects in conflict-affected areas of Mindanao.

For FY 2004, the program will maintain the integrated implementation and funding framework described above for FY 2003.

**Performance and Results:** Prominent among the results achieved in 2002 was the approval of the implementing rules and regulations of the Anti-Money Laundering Law addressing deficiencies in the law identified by the Financial Action Task Force. This helped strengthen the GRP's role in the global war on terrorism. Improved capabilities to fight corruption in revenue administration led to increased identification of value added tax (VAT) under declarations and therefore increased VAT collection. A blueprint for re-engineering the Bureau of Internal Revenue was developed and legislation for institutional reform, based on that blueprint, was introduced in the Congress. Implementing rules and regulations for the Customs Valuation Law have been approved and published. Government agencies and NGOs were trained in new procedures issued by Executive Order to make the GRP procurement system more efficient and transparent, and a new Procurement Bill was passed by the Philippine legislature by the end of FY 2002. International air service benefited from reforms that allowed more air carriers to serve key routes to and from the Philippines. To improve service in inter-island shipping, the Philippine Ports Authority issued revised bid rules for cargo-handling contracts. Approval of specific guidelines for interconnection between telephone carriers has improved telephone service in smaller towns served by independent telephone companies, and regulations have also been approved to promote deployment of public calling centers in underserved areas in the countryside, improving opportunities for small and micro enterprises in secondary centers. Scientific guidelines were put in place to permit commercialization of food crops grown from transgenic seed -- a first in Asia. A plant-variety protection law was also enacted to promote generation of intellectual property through applied agricultural research. Implementing regulations for border control to enforce the Intellectual Property Code were approved. Policies for supervising banks and cooperatives were revised to support sound programs for microfinance, which will particularly support development of micro enterprise in Mindanao. The enforcement of commercial laws has been strengthened with the establishment of a mechanism for court-based mediation in the Court of Appeals.

## US Financing in Thousands of Dollars

Philippines

492-002 Economic Governance	DA	ESF	MAI
<b>Through September 30, 2001</b>			
Obligations	26,098	3,991	60,244
Expenditures	15,772	0	60,244
Unliquidated	10,326	3,991	0
<b>Fiscal Year 2002</b>			
Obligations	5,592	10,000	0
Expenditures	7,857	3,543	0
<b>Through September 30, 2002</b>			
Obligations	31,690	13,991	60,244
Expenditures	23,629	3,543	60,244
Unliquidated	8,061	10,448	0
<b>Prior Year Unobligated Funds</b>			
Obligations	0	0	0
<b>Planned Fiscal Year 2003 NOA</b>			
Obligations	9,192	5,000	0
<b>Total Planned Fiscal Year 2003</b>			
Obligations	9,192	5,000	0
<b>Proposed Fiscal Year 2004 NOA</b>			
Obligations	8,708	5,000	0
Future Obligations	18,000	10,000	0
Est. Total Cost	67,590	33,991	60,244

## Data Sheet

<b>USAID Mission:</b>	Philippines
<b>Program Title:</b>	Family Planning and Health
<b>Pillar:</b>	Global Health
<b>Strategic Objective:</b>	492-003
<b>Status:</b>	Continuing
<b>Proposed FY 2003 Obligation:</b>	\$24,550,000 CSH
<b>Prior Year Unobligated:</b>	\$2,000,000 ESF
<b>Proposed FY 2004 Obligation:</b>	\$22,000,000 CSH
<b>Year of Initial Obligation:</b>	FY 1994
<b>Estimated Completion Date:</b>	FY 2007

**Summary:** USAID's activities focus on two major factors contributing to poverty in the Philippines - continued high population growth and the tuberculosis (TB) burden. Local governments, which are now responsible for providing key primary health services, are the primary locus of efforts to further improve family planning services, expand TB diagnosis and treatment, and improve other vital health services focused particularly on the poor. Specialized activities are underway to improve dramatically poor health indicators in the conflict-affected areas of Mindanao and other marginalized areas of the country. However, with limited resources the public sector must take on a more focused role of providing health services to the lowest income groups. At the same time, the private and commercial sector must be given the confidence to enter the market and provide these services to those who have the ability to pay. Creating national self-reliance for the contraceptive supply is central to the development of the Philippines. USAID is concurrently strengthening the private sector's ability to provide more and better quality family planning and TB services to reduce the requirements on the overstretched government systems and make these services more sustainable.

### **Inputs, Outputs, Activities:**

#### **FY 2003 Program:**

Family Planning and Health Services by Local Government Units (\$9,300,000 CSH; \$2,000,000 FY 2002 ESF Supplemental). With an emphasis on conflict-affected areas of Mindanao this effort aims to improve family planning and health services by local government units. USAID will provide technical assistance and training to local government health practitioners and service providers to expand and improve services in as many as 400 cities and municipalities to increase the availability of TB diagnosis and treatment and improve counseling for family planning. USAID will provide technical assistance to city health officers to implement client segmentation in public clinics to focus scarce government resources on those who cannot afford to pay. In addition to providing training and equipment to public hospitals to provide voluntary sterilization services to patients who opt for this method, funds will support the creation of several regional sterilization training centers and establish additional provider sites. USAID will implement vitamin A supplementation activities and immunization campaigns in the conflict-affected areas of Mindanao. USAID will also enhance HIV/AIDS behavior change efforts focused on the high risk groups, and continue to provide technical assistance to maintain the world class surveillance system established under the program.

Family Planning and Health Services by the Private Sector (\$7,700,000 CSH). USAID is working towards contraceptive self-reliance and sustainability by expanding the role played by the private sector in providing FP and TB services. Through its marketing efforts, USAID anticipates that the private sector will contribute significantly to increased access to and improved choice of affordable health services. USAID will provide technical assistance to private physicians to help them treat TB correctly. In collaboration with the Global Alliance for Improved Nutrition (GAIN) initiative, USAID will provide technical assistance to increase the types of vitamin fortified foods and their consumption. USAID will establish a coalition of nationally recognized businesses and private sector organizations to advocate for improved

policies for private sector provision of family planning as well as to develop a voluntary certification system to improve the quality of health services.

Social Acceptance of Family Planning (\$3,550,000 CSH). Knowledge and appreciation of family planning are high, yet Filipinos have yet to accept the use of family planning as part of a normal, healthy lifestyle. USAID will address this situation by expanding communication and advocacy activities in the public and private sectors. These activities, in turn, will help to increase social acceptance of modern family planning methods, by identifying and promoting key 'cultural champions' who will openly discuss their use of family planning; portray family planning as a normal way of life; provide technical assistance to local medical societies for the development and implementation of family planning related standards for their members; and increase advocacy to support national laws intended to improve women's access to family planning.

National Policy Environment for Family Planning and Health Services (\$4,000,000 CSH). The National Health Insurance Program (NHIP) covers over 50 percent of the population, and USAID will provide technical assistance to support inclusion of FP and TB in the national benefit package; revision of national policies and guidelines to allow greater access to family planning, particularly for the poor; and communication to insurance plan holders of new and underutilized benefits related to family planning. USAID will also support efforts of local groups to advocate for changes in government policies to promote self reliance in contraceptives.

USAID will work with the Department of Health, Commission on Population, DKT Philippines, Academy for Educational Development, Management Sciences for Health, John Snow, Inc., EngenderHealth, Program for Appropriation Technology in Health, The Futures Group, Reachout Foundation, World Health Organization, FriendlyCare, Inc., and local NGOs. All family planning agreements will incorporate clauses that implement the President's directive reinstating the Mexico City Policy.

**FY 2004 Program:**

Family Planning and Health Services by Local Government Units (\$9,700,000 CSH). Program activities will be expanded to include an additional 120 local governments nationwide.

Family Planning and Health Services by the Private Sector (\$6,700,000 CSH). USAID will increase marketing efforts to help the private sector sell an additional seven million contraceptives; expand TB activities to 25 cities; and support the nationwide expansion of a quality accreditation service for private health care providers that will build consumer confidence to use these services and keep them competitive with each other.

Social Acceptance of Family Planning (\$3,000,000 CSH). USAID will continue communications and advocacy activities, including those focused on HIV/AIDS. Additional popular champions will be identified and promoted. National and local communications campaigns will be conducted.

National Policy Environment for Family Planning and Health Services (\$2,600,000 CSH). Technical assistance will be provided to implement the NHIP's new and improved benefits package developed in FY 2003.

**Performance and Results:** Recent program efforts have paid off as preliminary data suggest a national increase in contraceptive prevalence rates for modern methods from 33.1 percent in 2000 to 35.1 percent in 2001, or a two percent increase. This represents approximately 240,000 new users of modern family planning methods in the challenging environment of the Philippines. Additional successes were seen in all major national indicators: 2002 data show tetanus toxoid protection at 62.2 percent of pregnancies, or a 6.6 percent increase from 2001; complete childhood immunization levels increased to 63 percent nationally, or an increase of 1.7 percent from 2001; and Vitamin A supplementation increased to 86.1 percent, exceeding the national goal for the first time. HIV/AIDS prevalence remains below three percent among high risk groups. In addition 120 new local governments are expected to be participating in USAID's program, bringing the total to 400 and exceeding targets by over 300 percent.

## US Financing in Thousands of Dollars

Philippines

492-003 Family Planning and Health	CSH	DA	ESF	MAI
<b>Through September 30, 2001</b>				
Obligations	14,594	59,875	0	1,800
Expenditures	7,568	43,182	0	1,146
Unliquidated	7,026	16,693	0	654
<b>Fiscal Year 2002</b>				
Obligations	21,060	0	1,400	0
Expenditures	3,504	8,427	4	435
<b>Through September 30, 2002</b>				
Obligations	35,654	59,875	1,400	1,800
Expenditures	11,072	51,609	4	1,581
Unliquidated	24,582	8,266	1,396	219
<b>Prior Year Unobligated Funds*</b>				
Obligations	0	0	2,000	0
<b>Planned Fiscal Year 2003 NOA</b>				
Obligations	24,550	0	0	0
<b>Total Planned Fiscal Year 2003</b>				
Obligations	24,550	0	2,000	0
<b>Proposed Fiscal Year 2004 NOA</b>				
Obligations	22,000	0	0	0
Future Obligations	48,000	0	0	0
Est. Total Cost	130,204	59,875	3,400	1,800

\* Prior Year Unobligated Funds includes \$2M of the FY 2002 Supplemental - ESF.

## Data Sheet

<b>USAID Mission:</b>	Philippines
<b>Program Title:</b>	Environment and Energy
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	492-004
<b>Status:</b>	Continuing
<b>Proposed FY 2003 Obligation:</b>	\$13,167,000 DA
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2004 Obligation:</b>	\$10,360,000 DA
<b>Year of Initial Obligation:</b>	FY 1995
<b>Estimated Completion Date:</b>	FY 2007

**Summary:** USAID's program to protect natural resources includes strengthening the ability of national and local governments to address critical threats to marine and forest resources and to implement integrated solid waste management systems. Activities promote transparency and accountability in managing natural resources and enforcing environmental laws, thus reducing threats to the country's globally-significant biodiversity. USAID's work in energy and air quality aims to: 1) establish an open, competitive market for generating and distributing electricity in an effort to lower electricity rates and improve global competitiveness; 2) electrify communities of former rebel soldiers using renewable energy to promote peace by improving their standards of living; and 3) reduce vehicle emissions to improve public health. The conflict-affected areas of Mindanao are a major emphasis of these efforts.

### **Inputs, Outputs, Activities:**

#### **FY 2003 Program:**

Improved Environmental Governance (\$6,717,000 DA). USAID will promote improved environmental governance, including greater transparency and accountability, by assisting self-selected local government units (LGUs) to plan and implement forest land use plans to reduce illegal logging and deforestation. USAID will provide legal assistance to at least 30 communities to mitigate conflicts and promote effective community management of forests, particularly in the Autonomous Region of Muslim Mindanao. Mechanisms will be developed to generate downstream user fees to finance upstream sustainable environmental services. USAID will sponsor media and multi-stakeholder forums to increase awareness of overfishing problems and solutions. USAID will also provide technical assistance to improve national policies that link harvesting of fish stocks with issuance of licenses in order to support the sustainable use of coastal resources to support food security. USAID will provide technical assistance to selected LGUs to introduce greater transparency and accountability in contracting for solid waste management services. Training and cross visits will encourage LGUs to adopt integrated solid waste management systems that include economic incentives to promote segregation, recycling and composting. The above activities are being implemented by Development Alternatives, Inc., Tetra Tech EM, Center for International Environmental Law, ACDI/VOCA, PADCO, Inc., and the U.S. Peace Corps. The U.S.-Asia Environmental Partnership (USAEP) program will fund technical assistance, training and exchanges to support the improved management of toxic and hazardous wastes, and the integrated management of solid wastes.

Performance in Energy and Air Quality Sectors (\$6,450,000 DA). USAID will electrify 5,000 households in remote rural communities of former rebel combatants with sustainable renewable energy systems (such as solar and/or micro-hydro). About 2,000 homes and public facilities in 60 communities will be electrified in FY 2003. USAID will partner with Mirant Philippines, a US corporation and the Philippines' largest independent power producer, which will procure and install the equipment while USAID supports training and organization of communities to successfully manage and finance the operation and maintenance of these systems. To lower electricity costs and improve air quality, USAID will support the restructuring of the energy sector to increase competition and efficiency in the generation and retail supply of electricity. In addition, advisors will assist the new, independent Energy Regulatory

Commission in handling 140 cases covering generation, transmission and distribution issues and assist in developing implementing rules and policies to encourage the development of the natural gas and renewable energy sectors, including private sector investment. USAID will increase public awareness of the health impacts of excessive vehicle emissions, assist in establishing private sector emission testing centers, and promote vehicles with cleaner-burning fuels such as compressed natural gas (CNG). USAID will also explore options to partner with the private sector to import CNG-powered buses from the U.S. Activities are being implemented by the Academy for Educational Development, Winrock, and the U.S. Department of Energy. USAEP will provide training, study tours and technical expertise to reduce vehicle emissions, including activities to promote the use of cleaner-burning alternative fuels such as compressed natural gas.

**FY 2004 Program:**

Improved Environmental Governance (\$4,800,000 DA). Activities will include establishing downstream user fees for upland environmental services (e.g., water catchment and supply), providing legal assistance to at least 50 upland communities in managing and reducing conflicts over forest resources, and devolving authority for managing forests to local governments. Assistance in expanding community-based management of forests will directly support GRP efforts to promote peace in conflict-affected areas. USAID will help key stakeholders address overfishing through participatory consultations and policy reform. USAID will expand assistance to selected LGUs to build their capacity to implement more efficient procurement systems for solid waste management services. Activities will support more transparent, accountable, and participatory governance of forests and coastal resources, including sustainable management of wild fish stocks; and delivery of solid waste management services, leading to less corruption and greater efficiency in the provision of public services. The regional U.S.-Asia Environmental Partnership (USAEP) program will fund technical assistance, training, and exchanges to support the improved management of toxic and hazardous wastes, and the integrated management of solid wastes.

Performance in Energy and Air Quality Sectors (\$5,560,000 DA). USAID will electrify an additional 2,250 households and public facilities in 75 communities of former rebel soldiers in conflict-affected areas of Mindanao with renewable energy systems. USAID will strengthen the Energy Regulatory Commission's ability to regulate over 140 utilities and cooperatives and intensify efforts to reduce vehicle emissions through constituency building, increased enforcement, and private sector partnerships. Activities will be implemented by the organizations identified for the FY 2003 program. US-AEP will provide training, study tours, and technical expertise to reduce vehicle emissions, including activities to promote the use of cleaner-burning alternative fuels such as compressed natural gas.

**Performance and Results:** USAID efforts to improve environmental governance resulted in the commitment of \$160,000 by 15 Mindanao LGUs to reduce illegal logging and destructive fishing and improve solid waste management. Five municipalities placed an additional 1,310 hectares of coastlines under improved management in 2002, for a total area of 31,870 hectares placed under improved management by 101 municipalities. One hundred communities improved their ability to monitor and protect 1,600 hectares of marine sanctuaries, thereby enabling increased coral cover and a chance for severely depleted fish stocks to recover. In the energy sector, USAID efforts resulted in the electrification by renewable energy of 300 households and public facilities in 10 communities of former rebel soldiers in conflict-affected areas of Mindanao. Monthly energy costs for 1,800 beneficiaries were lowered by 70 percent and they now have brighter lights for activities such as childcare, school work, and income generation. The newly created Energy Regulatory Commission issued five decisions to separate generation and transmission rates of the most critical electric utilities, and advisors helped put in place procedures to accelerate future reviews, which will ensure transparent competition. A USAID-sponsored working group of Undersecretaries from six agencies was formed and mobilized to establish 15 private vehicle emissions testing centers, enabling vehicle owners to comply with Clean Air Act requirements. Following a USAID-led public-private sector delegation to an international conference on natural gas vehicles, President Macapagal-Arroyo launched a program to begin putting CNG-powered buses on Manila's streets by October 2003.

## US Financing in Thousands of Dollars

Philippines

	DA	MAI
492-004 Environment and Energy		
<b>Through September 30, 2001</b>		
Obligations	37,560	117,756
Expenditures	27,388	117,756
Unliquidated	10,172	0
<b>Fiscal Year 2002</b>		
Obligations	13,644	0
Expenditures	6,721	0
<b>Through September 30, 2002</b>		
Obligations	51,204	117,756
Expenditures	34,109	117,756
Unliquidated	17,095	0
<b>Prior Year Unobligated Funds</b>		
Obligations	0	0
<b>Planned Fiscal Year 2003 NOA</b>		
Obligations	13,167	0
<b>Total Planned Fiscal Year 2003</b>		
Obligations	13,167	0
<b>Proposed Fiscal Year 2004 NOA</b>		
Obligations	10,360	0
Future Obligations	24,000	0
Est. Total Cost	98,731	117,756

**Data Sheet**

**492-005: No Summary and/or Pillar information entered for this SO.**

**Data Sheet**

**492-006: No Summary and/or Pillar information entered for this SO.**

**Data Sheet**

**492-007: No Summary and/or Pillar information entered for this SO.**

**Data Sheet**

**492-008: No Summary and/or Pillar information entered for this SO.**

## Data Sheet

<b>USAID Mission:</b>	Philippines
<b>Program Title:</b>	Conflict Resolution in Mindanao
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	492-010
<b>Status:</b>	Continuing
<b>Proposed FY 2003 Obligation:</b>	\$3,750,000 DA; \$15,000,000 ESF
<b>Prior Year Unobligated:</b>	\$10,000,000 ESF
<b>Proposed FY 2004 Obligation:</b>	\$3,000,000 DA; \$15,000,000 ESF
<b>Year of Initial Obligation:</b>	FY 2001
<b>Estimated Completion Date:</b>	FY 2007

**Summary:** This program is the principal means through which USAID is assisting the Government of the Republic of the Philippines (GRP) to consolidate the still fragile peace in Mindanao, and to reduce the potential for Mindanao to become a source of recruits for terrorist organizations. USAID addresses threats to U.S. and global interests posed by the separatist conflict in Mindanao through targeted assistance for individuals and communities in conflict-affected areas, and by helping to bring about a general and equitable expansion of economic opportunity for the people of Mindanao. USAID activities under this program are grouped into the following components: 1) integration of former combatants and their communities; 2) improving economic infrastructure in conflict-affected areas; 3) accelerating economic and business development of Mindanao; 4) increasing access to micro enterprise services; and 5) improving governance and expanding availability of social services in the conflict-affected areas of Mindanao.

### Inputs, Outputs, Activities:

#### FY 2003 Program:

Livelihood Assistance to Former Combatants and Their Communities (\$2,000,000 FY 2002 ESF Supplemental, \$5,000,000 FY 2003 ESF NOA). USAID will assist approximately 4,000 former Muslim combatants to help them develop the capability of making a living for themselves and their families. USAID will provide the former combatants all inputs needed to initiate commercial-level production of corn, rice, or seaweed, as well as training, technical support, and marketing assistance. USAID will also provide post-harvest facilities (e.g., grain storage sheds and corn dryers) to their communities.

Improving Economic Infrastructure in Conflict-affected Areas (\$5,000,000 FY 2002 ESF Supplemental, \$10,000,000 FY 2003 ESF NOA). USAID will assist 500 communities in the conflict affected areas to build small infrastructure facilities (such as water systems, jetty improvements, bridges, culverts and farm-to-market roads) costing between \$5,000 to \$25,000. Approximately six to ten mid-size projects will be undertaken with the objective of having an immediate and substantial impact on getting the economy in the area moving, including improvements to existing facilities or repairs to infrastructure that were damaged during the conflict.

Accelerating Economic and Business Development of Mindanao (\$1,150,000 DA). USAID will provide technical assistance to expand the production and marketing of high-value crops and products, and assist in the formation and/or strengthening of business support organizations such as the Muslim Business Forum, the Mindanao Business Council, and the Mindanao Vegetable Growers' Association. This provides small farmers with better access to new technology, expands their markets, and helps reduce rural poverty.

Increasing Access to Microfinance Services (\$2,600,000 DA, \$1,000,000 FY 2002 ESF Supplemental). USAID will provide technical assistance to 110 rural banks and 29 credit unions in Mindanao to enable them to profitably provide loan and deposit services to micro enterprises on a continuing basis. Particular attention will be paid to rural banks that are located in conflict-affected areas, or which provide services to

members of cultural minorities. It is anticipated that approximately 40,000 new microfinance borrowers and 120,000 cooperative members will benefit from this assistance.

Improving Governance and Delivery of Social Services in the ARMM (\$2,000,000 FY 2002 ESF Supplemental). USAID has just completed an assessment of the education sector in the Autonomous Region in Muslim Mindanao (ARMM) to identify targeted opportunities and priorities for assistance. It is anticipated that such assistance will focus on improving school administration; reducing corrupt practices in procurement, teacher hiring and promotion; improving linkages between schools, the business community, and parent groups; strengthening English language training; and decreasing the high drop-out rate.

**FY 2004 Program:**

Livelihood Assistance to Former Moro Islamic Liberation Front (MILF) Fighters (\$4,000,000 ESF). USAID will provide livelihood assistance to 3,000 MILF combatants, should the MILF sign a peace agreement with the government. If the agreement is not signed, resources would instead assist additional former Moro National Liberation Front (MNLF) combatants and their communities.

Improving Economic Infrastructure in Conflict-affected Areas (\$10,000,000 ESF). USAID will continue funding the construction of 10 high visibility infrastructure projects in the conflict-affected areas of Mindanao.

Accelerating Economic and Business Development of Mindanao (\$2,000,000 DA). USAID will provide technical assistance for business development, including support for eight business support organizations to enable them to achieve targets set in their business development plans, thus achieving the goal of viability and self sustainability by the end of the program. Exports of fish, fruit and vegetables to growing Asian markets from Mindanao are expected to grow by as much as 15 percent per year.

Increasing Access to Microfinance Services (\$1,000,000 DA). USAID will continue to assist rural banks and credit cooperatives to ensure profitability in their microfinance lending operations. Approximately 130 rural banks and 40 credit unions, benefiting some 55,000 new microfinance borrowers and 160,000 cooperative members, will receive USAID assistance in FY 2004.

Increasing Governance and Delivery of Social Services in the ARMM (\$1,000,000 ESF). USAID expects to continue and expand education sector activities begun in FY 2003 and initiate further activities to focus on improving curriculum, strengthening English capability, and decreasing the drop-out rate in the ARMM. For example, it is anticipated that some 10,000 students in the ARMM would benefit from a scholarship program established with USAID assistance.

**Performance and Results:** USAID provided assistance to 8,000 former combatants in FY 2002 to help them establish themselves as small-scale commercial farmers, thus developing their ability to make a living for themselves and their families on a continuing basis. This brings the total to 21,000 former combatants assisted out of 25,000 identified as needing assistance. USAID also developed the capability of an additional 23 rural banks to provide services profitably to micro enterprises, bringing the total number of rural banks assisted to 97. Out of 131,000 micro-depositors now regularly saving at the participating banks, some 53,000 opened their accounts during FY 2002. USAID support to the development of business support organizations resulted in an agreement by the GRP to allow unhampered transport of timber grown on private lands in the region of Mindanao, which is home to the largest number of small-farmer tree farms, and GRP approval of scientific guidelines for marketing of seed varieties bred with transgenic techniques (GMOs). The ARMM Business Council, an umbrella organization for all business organizations in the ARMM, and the first ever Basilan Chamber of Commerce and Industry, were also established with USAID support. (Note that Basilan was the site of the US-Philippines Joint Task Force military support in 2002 to address the Abu Sayyaf terrorist threat.)

## US Financing in Thousands of Dollars

Philippines

	DA	ESF
492-010 Conflict Resolution in Mindanao		
<b>Through September 30, 2001</b>		
Obligations	0	0
Expenditures	0	0
Unliquidated	0	0
<b>Fiscal Year 2002</b>		
Obligations	5,200	12,211
Expenditures	0	0
<b>Through September 30, 2002</b>		
Obligations	5,200	12,211
Expenditures	0	0
Unliquidated	5,200	12,211
<b>Prior Year Unobligated Funds*</b>		
Obligations	0	10,000
<b>Planned Fiscal Year 2003 NOA</b>		
Obligations	3,750	15,000
<b>Total Planned Fiscal Year 2003</b>		
Obligations	3,750	25,000
<b>Proposed Fiscal Year 2004 NOA</b>		
Obligations	3,000	15,000
Future Obligations	8,000	30,000
Est. Total Cost	19,950	82,211

\* Prior Year Unobligated Funds includes \$10M of the FY 2002 Supplemental - ESF.

**Data Sheet**

**492-011: No Summary and/or Pillar information entered for this SO.**

**Data Sheet**

**492-XXX: No Summary and/or Pillar information entered for this SO.**