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USAID/PHILIPPINES STRATEGY FY 2005 – 2009

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**Additional information on the attached can be obtained from
Michael J. Yates, Director, USAID/Philippines**

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LIST OF ACRONYMS

ADB	Asian Development Bank
ADR	Alternative Dispute Resolution
AMORE	Alliance for Mindanao Off-Grid Renewable Energy
ARMM	Autonomous Region in Muslim Mindanao
ASEP	AIDS Surveillance and Education Project
ASG	Abu Sayyaf Group
ATIL	Advocating Trade and Investment Liberalization
AUSAID	Australian Agency for International Development
ASEAN	Association of Southeast Asian Nations
BFE	Bureau of Non-Formal Education
BIR	Bureau of Internal Revenue
BSOs	Business Support Organizations
CAA	Conflict-Affected Areas
CG	Consultative Group
CME	Coconut Methyl Ester
CNG	Compound Natural Gas
COA	Commission on Audit
CPIP	Credit Policy Improvement Project
CPP/NPA	Communist Party of the Philippines/New People's Army
CSC	Civil Service Commission
DCA	Development Credit Authority
DENR	Department of Environment and Natural Resources
DG	Democracy and Governance
EBM	Evidence-based Medicine
EGTA	Economic Governance Technical Assistance
EPIRA	Electric Power Industry Reform Act
ERC	Energy Regulatory Commission
FAA	U.S. Foreign Assistance Act
FATF	Financial Action Task Force
FISH	Fisheries Improved for Sustainable Harvest
GAD	Gender and Development
GDA	Global Development Alliance
GEM-2	Growth with Equity in Mindanao-2
GOLD	Governance and Local Democracy
GPRA	Government Procurement Reform Act
GRP	Government of the Republic of the Philippines

JBIC	Japan Bank of International Cooperation
Ji	Jemaah Islamiyah
ICT	Internet and Communication Technologies
IMF	International Monetary Fund
IPR	Intellectual Property Rights
LADR	Legal Accountability and Dispute Resolution
LEAD	Local Enhancement and Development
LEAP	Livelihood Enhancement and Peace Program
LGUs	Local Government Units
MGP	Matching Grants Program
MILF	Moro Islamic Liberation Front
MNLF	Moro National Liberation Front
MPP	Mission Performance Plan
MTPDP	Medium-Term Philippine Development Program
MWG	Mindanao Working Group
NEDA	National Economic and Development Authority
NGOs	Non-Governmental Organizations
NPA	New People's Army
OE	Operating Expense
OEDG	Office of Economic Development and Governance
PAS	Public Affairs Section
PASA	Participatory Agency Service Agreement
PC	Peace Corps
PPA	Public Private Alliance
RFSC	Regional Financial Service Center
ROLE	Rule of Law Effectiveness Activity
RO-RO	Roll-On Roll-Off
SEC	Securities and Exchange Commission
SO	Strategic Objective
SSG	Strategy Support Group
TAF	The Asia Foundation
TAG	Transparent and Accountable Governance
TEIs	Teacher Education Institutions
TIPS	Tuberculosis Initiatives in the Private Sector
USG	United States Government
USAID	United States Agency for International Development
USAID/W	United States Agency for International Development/Washington
WFMC	Well-Family Midwife Clinic

EXECUTIVE SUMMARY

September 11, 2001, and the subsequent Global War on Terrorism have had major implications for the role of USAID. Effective development assistance must play a key role in meeting the USG's highest priority foreign policy goals. These include combating terrorism and promoting regional stability and security; mutual economic prosperity; democracy and the rule of law; and addressing global problems of population, health and the environment. Development initiatives that alleviate poverty and injustice, and that allow disadvantaged groups to play a greater role in social and political life, create a richer democratic pluralism that can help build stability and opportunity. USAID/Philippines is helping its Filipino partners to make progress in these areas.

The Philippines plays an important role in regional stability. Mindanao continues to experience separatist conflict and terrorist violence. There is evidence that transnational terrorist groups, most notably Jemaah Islamiyah, have used Philippine territory as a staging ground for terrorist acts. The sizeable Muslim population in Mindanao is marginalized economically and lacks adequate access to basic social services. Development needs are greatest in conflict-affected areas, particularly the Autonomous Region in Muslim Mindanao (ARMM). The ARMM has the country's highest poverty rates (average per capita income is less than \$1 dollar/day) and disturbingly low human development indicators. Islamic schools (*madari*), some of which are foreign-funded, are outside the regulatory scope of the Philippine government and, in the hundreds of communities in the ARMM with no public schools at all, are often the only alternative for families seeking to educate their children.

The Philippines faces serious challenges to development: continuing conflict, corruption, a comparatively weak investment climate, inadequate revenue generation, rapid population growth, structural poverty, a deteriorating educational system, environmental degradation, and weaknesses in its institutions of governance. Nevertheless, real and significant progress *is* being made, and the opportunities for major and lasting change are unprecedented. In Mindanao, with USAID assistance, more than 24,000 former combatants of the Moro National Liberation Front (MNLF) have successfully reintegrated into the peacetime economy and have not taken up arms again. The Moro Islamic Liberation Front (MILF) and the GRP are working towards a final agreement. According to President Macapagal-Arroyo, this progress has been helped by the example provided by USG assistance to the MNLF. At the national level, true champions against corruption, including many within the government, are emerging and are beginning to work together to encourage badly needed systemic reform. These opportunities must be vigorously pursued to build national and regional stability.

The new strategic context has demanded adjustments to the USAID/P's strategy. A proposed new strategic objective (SO), superseding the current, Mindanao-specific Special Objective (SO10) will help address conflict more comprehensively, including in selected areas outside Mindanao where poverty and social injustice can help to create fertile ground for organized violence and terrorism. The new Education SO (SO11), approved by USAID/W in September 2003 and highlighted by President Bush during his State visit to the Philippines, focuses principally on the conflict-affected areas (CAA) of Mindanao. Three SOs for health,

environment, and economic growth and governance carry over as vital components of the new strategy, strengthened and sharpened by experience and deeper links to partner groups. All these efforts help address development challenges and help build stability.

USAID/Philippines will help contribute to historic and lasting change under the proposed new strategy. Anticipated USAID-supported developments include but are not limited to:

- 12,000 MILF become fully integrated into the peaceful economy (assuming the current peace process reaches fruition), along with the 1,000 MNLF ex-combatants remaining to be trained to complete the 25,000 total for that group; additional assistance, e.g. renewable energy, improved education and health, will be provided to encourage full integration. This includes the electrification of 6,000 more households of former rebel soldiers in the ARMM and conflict-affected areas, for total of 11,000 under the current and new strategy. This will substantially contribute to ending decades of large-scale separatist conflict in Mindanao.
- Major inroads achieved in fighting public corruption, demonstrated by GRP determination through greatly increased arrests and convictions of corrupt officials, even at higher levels.
- A fully decentralized public health care system providing better health and family planning services to the poorest of the poor, including in Mindanao, with the private sector fully engaged in providing a range of effective health services, including family planning, to those who can afford to pay. This marks a dramatic departure from the historical reliance on USAID and other donors to meet the nation's family planning needs.
- Effective support for power sector reform and private sector investment is provided, helping to avert another national power crisis.
- Hundreds of communities take effective control over forests, fish and water, making it more difficult for illegal transactions that harm the environment and that sometimes are connected to corruption and terrorist activity.
- Major inroads achieved in improving the country's education system, particularly in Mindanao, with improved resource use, increased English language capability, lower dropout rates, higher test scores, and increased integration of *madari* into the educational mainstream.

USAID/Philippines developed this Proposed Strategy for 2005-2009 in consultation with all technical and support offices, the U.S. Country Team, and with insights from experts and leading public and private sector thinkers. Working groups on education and conflict met periodically for months, culminating in a USAID/P-wide strategy retreat with the USAID/Washington Asia and Near East Bureau's participation. Consultations with other donors, the Government of the Republic of the Philippines (GRP), Country Team partners, and civil society all contributed to formulation of the strategy. Finally, the Strategy was also informed by the findings of the Conflict Vulnerability Assessment, the Gender and Environment Assessments, and inputs from the strategy Concept Paper reviews conducted in USAID/Washington in February 2004.

USAID/Philippines' new Strategic Goal is "Enhanced security and accelerated progress towards sustainable, equitable growth through improved governance, capacities, and economic opportunities." This supports the long-term Development Goal of "Sustainable, equitable prosperity and peace." The proposed strategy will contribute to achieving these goals by:

- Enhancing security by helping to reduce conflict in Mindanao and other areas vulnerable to violence (SO12);
- Supporting improved performance of selected government institutions (SO2);
- Promoting health and well-being of Filipinos through support for improved and decentralized service delivery, increased private sector involvement, social acceptance of family planning, and policy reform (SO3);
- Strengthening management and governance of life-sustaining natural resources, better urban environment management, and reliable and cleaner energy (SO4); and
- Increasing access to quality education in the CAAs of Mindanao and supporting broader education sector policy reform (SO11).

All Strategic Objectives will emphasize assistance in Mindanao, particularly in conflict-affected areas. USAID is building and capitalizing on important earlier investments and, in that manner, getting high returns for low costs as we develop new and innovative approaches. In response to changing circumstances, USAID will continue to review and refine activities. USAID sees improved governance as essential to achieving each sector-specific SO. Thus, as in the FY 2000-2004 strategy, support for improved governance, at both the national and local level, is a central, cross-cutting theme across SOs. Gender and development will receive continued emphasis in the strategy. USAID will integrate gender concerns into those programs that increase incomes, provide access to health and education services, and enable ordinary women to participate in issues directly affecting them. The strategy is highly congruent with the Mission Performance Plan (MPP) and GRP development priorities. USAID will actively engage additional private and public sector partners, aggressively expand its growing range of Public Private Alliance (PPA) partnerships, and work closely with other agencies/sections at post (e.g., Economics, Political, Public Affairs, and Peace Corps) and coordinate with other donors.

Key Parameters

USAID/P's proposed strategy can be effectively implemented at the program funding levels provided through FY 2006 and, when straight-lined in that range, at approximately \$80 million per year in the out-years. There are, however, two situations that would necessitate some increase. First, lasting peace between the GRP and the MILF will substantially influence the specific activities and target groups in SO12. Second, the USG may opt to take full advantage of the enormous window of opportunity that now exists to help local partners address corruption. With some adjustments in the mix, staffing levels as of the end of FY 2004 should be sufficient to implement the proposed strategy, unless there are significant changes in program demands above those currently envisioned.

I. Strategic Context

USAID's Changing Role. The USAID/P's 2000-2004 strategy initially focused on traditional areas of USAID concern: economic growth, governance, environmental degradation, and family planning and health. September 11, 2001 and the subsequent Global War on Terrorism (GWOT) brought about changes in the role of USAID. Foreign assistance is now more carefully targeted to support priority global and regional objectives such as combating terrorism and promoting regional stability and security. Development initiatives that reduce poverty, allow disadvantaged groups to play a greater role in economic and political life, and create upward mobility for individuals and a richer pluralism for the nation all help to directly address some of the root causes of terrorism and violence, including perceived injustice, political alienation, and severe deprivation.

Global terrorism knows no geographical boundaries. In Southeast Asia, Jemaah Islamiyah (JI), aided and abetted by al-Qaeda, continues to engage in terrorist acts that threaten regional stability. Philippines President Macapagal-Arroyo has identified JI as one of the country's major terrorist threats.

The Philippines must play an important role in maintaining stability in a troubled region. Mindanao has been the center of significant separatist conflict, most recently between the GRP and the Moro Islamic Liberation Front (MILF). Muslim minorities in Mindanao are economically marginalized and at times excluded from political participation, lack adequate access to social services and economic opportunities, and resent government policies which they perceive as favoring the Christian majority. Development needs are particularly striking in the conflict-affected areas (CAA) of Mindanao, especially the Autonomous Region in Muslim Mindanao (ARMM). Approximately 2.4 million people live in the ARMM, which has the Philippines' highest poverty rates (with income/capita well under US\$1/day) and the worst human development indicators. Population growth is even more rapid in the ARMM than in the country as a whole, placing increasing pressure on scarce resources. These conditions contribute to an acute sense of exclusion that fuels the destabilizing and sometimes violent search for political alternatives, and continue to make Mindanao the priority geographic focus for the strategy.

Strong Commitment. President Arroyo's commitment to poverty reduction, with an emphasis on Mindanao, wisely focuses on poor and marginalized groups that may be most vulnerable to terrorist appeals. President Bush publicly commended President Arroyo for her "Strong Republic" agenda aimed at rooting out corruption, expanding economic opportunities, and alleviating poverty. President Arroyo's State visit to Washington, D.C. and President Bush's reciprocal State visit to the Philippines in 2003 strengthened the enduring partnership between the two countries.

Other Donors

There is good coordination between bilateral and multilateral donors and general consensus on the priority development challenges (see Section III). The largest donors are the Japan Bank for International Cooperation (JBIC), the Asian Development Bank (ADB), and the World Bank, all of whom primarily provide loans for infrastructure or sector policy programs. USAID collaborates with ADB and the World Bank on sectoral policy reform in energy, basic grains, bank and non-bank financial regulation, and expenditure management. The overall U.S. Mission maintains an active dialogue with the International Monetary Fund (IMF) which has a small but influential technical assistance program that includes tax administration. The United Nations Development Program (UNDP) helps coordinate donor activities in Mindanao, and USAID communicates regularly and looks for opportunities to coordinate with JBIC and JICA and currently is discussing collaboration on renewable energy and urban water financing. Australia and Canada include an emphasis on Mindanao, corruption, and governance that complements USAID's strategy. Several donors have new education initiatives and have suggested forming a working group on education. Other bilateral donors include the European Commission and other European Union members, who emphasize direct assistance to small enterprises and small farmers.

USAID's and the Embassy's active participation in the Consultative Group Meetings (now known as the Philippine Development Forum), in the donor working groups organized in preparation for the CG or to follow-up on CG issues, as well as in other formal and informal multi-donor efforts, supports effective collaboration and complementarity of activities, consistent with GRP expectations. USAID is routinely called upon and provides comments for consideration by the U.S. Executive Directors on the boards of multilateral organizations such as the World Bank and the Asian Development Bank on the country strategies and assistance programs for the Philippines, as well as on individual projects. Bilateral donors (e.g. Japan, Australia, Canada, New Zealand, and the European Union) also routinely consult with USAID on the formulation and evaluation of their country strategies and programs, as well as on individual activities. While these collaboration initiatives greatly inform USAID's own development program for the country, USAID initiates or undertakes activity-specific consultation and collaboration in the formulation and implementation of its programs to ensure complementarity of activities, efficient use of resources and optimization of desired outcomes.

Some recent examples of specific collaboration with other donors include:

- Capital Markets Development – USAID initially conducted a capital markets sector assessment, which helped form the basis for an ADB sector loan and for USAID subsequent support for policy and institutional support in conjunction with the ADB loan;
- Bank Regulation – USAID implemented bank supervision training programs which were co-funded by the World Bank; USAID collaborated with the ADB in provision of technical assistance for formulation of anti-money laundering legislation and implementation arrangements;
- Microfinance – USAID hosted, on a rotating basis, donor meetings on highly successful microfinance activities and shares information on its innovative programs that emphasize deposits and savings mobilization and management of best practices in microfinance;
- Office of the Ombudsman – USAID helped initiate a donor working group including UNDP and AUSAID to coordinate assistance in anti-corruption to the office of the Ombudsman;
- Health and Family Planning – USAID is participating actively in a revived donor working group to coordinate programs in the Health and FP sector;
- Mindanao – USAID has facilitated other donor assistance to Mindanao through helping implement smaller projects of some other bilateral donors, preparation of feasibility studies for World Bank projects, facilitation of infrastructure projects implementation and monitoring thereof; and sharing of security protocols and information;
- Energy Sector – USAID technical assistance for energy sector reform and capacity strengthening has complemented ADB sector assistance;
- Environment – Collaboration on programs to provide cleaner air and water with USAID technical assistance and credit guarantees, and Japanese and ADB financing.
- Education – USAID consulted with AUSAID in developing the new USAID program for education, and USAID plans to coordinate its education activities in Mindanao with AUSAID's;
- Governance – AUSAID has consulted with USAID in the design of its new governance facility; USAID is likewise taking into account AUSAID governance programs in designing its follow-on technical assistance activity for policy reform.

II. Country Background

The Philippines has long been a close strategic ally of the United States and the two countries enjoy a “special relationship”, working together for a century to achieve shared goals.

Limited Growth with Monopoly Control. The Philippines has experienced repeated setbacks in its efforts to develop economically and improve the quality of life of its people. During the 1950s, the country showed great promise, and many economists expected it to be a strong economic performer. The country had high levels of education and English literacy, respectable savings rates, and an export-oriented agricultural sector generating sufficient foreign exchange. The industrial sector exhibited rapid growth, and the country had one of the highest per capita incomes in Southeast Asia. However, Philippine economic growth has lagged behind many of its neighbors, in part due to the emergence of powerful elites, some of which were able to become dominant economic forces that have reduced competition.

During the 1960s and 1970s, corruption became endemic. After Marcos left the country in 1986, President Aquino (1986-1992) inherited a difficult situation characterized by a severe budget deficit, power blackouts, and depleted foreign exchange reserves.

During the Ramos administration (1992-1998), many policies of liberalization, privatization, and deregulation (including some initiated by the previous administration) began to bear fruit and were strengthened. This policy regime helped address many investor concerns; foreign investment increased dramatically from \$44 million in 1992 to \$2.01 billion in 1997. A relatively more conservative financial system helped insulate the economy from the worst ravages of the Asian financial crisis of 1997-1998, and large remittances from overseas workers (about \$6-7 billion annually) also buffered the impact. The emphasis on social development measures and participatory democracy through the health sector reform agenda and devolution of welfare programs to local government units (LGUs) improved living conditions in many poor communities. These and other factors helped the country weather the economic storm in better shape than Thailand, Indonesia, and other ASEAN nations.

In the wake of the crisis, many experts again expected the Philippines to finally realize its full economic potential, but a range of political and economic challenges have thwarted accelerated development. Economic performance since the financial crisis has been positive, with GDP real growth of 4.4% in 2002, 4.5% in 2003 and 6.1% in the first semester of 2004. For the whole year of 2004 and 2005, real GDP growth is project to be between 4.5% – 5.5%. However, when compared to the performance of other Asian nations over the last 25 years, the Philippines still lags far behind. In East Asia, only Burma, Laos, Cambodia and North Korea have performed more poorly.

Inequitable Social and Economic Development Contributing to Conflict. 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. Income distribution has changed little over the last 50 years and remains highly skewed. In 2000, the top 20% of families accounted for 56% of total family income in the country, while the bottom 20% accounted for less than five percent. The Philippines continues to manifest key symptoms of underdevelopment: a 2.36% population growth rate; destructive exploitation of natural resources (including unique marine and terrestrial biodiversity); and some instability, including separatist violence in Mindanao and nationwide attacks by the NPA (declared a terrorist organization by the U.S. in 2002).

Muslim Filipinos, constituting about 5% of the country's population, are geographically concentrated in the western and southern areas of Mindanao. They often lack access to basic services, have few viable economic opportunities, and can resent government policies perceived as favoring the Christian majority. It is therefore perhaps not surprising that Mindanao has been a center of separatist conflict, and sporadic terrorist activity. The Abu Sayyaf Group (ASG) remains active in Mindanao.

The Communist Party of the Philippines/New People's Army (CPP/NPA) is one of Southeast Asia's longest running insurgencies. Its durability can be attributed, on the one hand, to the continuing severe poverty and perceived social injustice that plague parts of the country and, on the other, to the inability of the GRP to defeat or pacify the insurgents by military means. The NPA's strongholds nationwide are in poorer and more isolated areas of the country. Continued poverty and corruption create an environment in which the CPP/NPA can grow and encourage recruitment – and with that, continuing instability and violence.

III. Development Challenges and Progress

Development Challenges

Conflict. Armed conflict in Mindanao and kidnappings and violent incidents have had a detrimental impact on foreign investment and economic growth. In addition, the cost of dealing with this conflict diverts the country's resources away from badly needed social programs and investments.

Corruption. Corruption has constrained fully competitive markets and limited government capacity to raise revenue and invest in human resources and infrastructure. It also aggravates inefficiencies in public resource allocation, undermines public confidence in government, and threatens the GRP's ability to secure increased donor support.

Investment Climate. The investment climate remains disappointing, complicated by continuing conflict and corruption, deficient infrastructure, a weak judiciary and weak regulatory bodies. Historic privatization efforts, including in the power sector, are moving slowly. Reform is needed to increase investment, improve competition, and build national competitiveness.

Inadequate Revenue Generation. The GRP's poor revenue generation capabilities have led to a chronically impoverished public sector. Basic public services continue to deteriorate. Relatively high levels of government debt, much of it dollar-denominated, increase vulnerability to external and domestic shocks. Tax collections as a percentage of GDP lag well behind international norms (approximately 25%); the World Bank estimates tax collections represented only 12.4% of GDP in 2002, a significant downward trend since 1997 (17%).

Poor Governance. The Philippines has a system of government characterized by public institutions (e.g., the bureaucracy, the judicial system, police) that in general are poorly funded (due to inadequate revenue generation and corruption) and are vulnerable to personalism, corruption and elite capture. In addition to this, the two dominant forces in Philippine politics are long-established elite families and, increasingly, "populist" media celebrities, neither of which have achieved the policy and institutional reforms necessary to stimulate equitable economic development.

Rapid Population Growth. The country's annual population growth rate of 2.36%, if left unchecked, will double the Philippine's population by 2030. The economy already cannot generate enough jobs to absorb the many new entrants, especially in the poorest parts of the country (e.g., the conflict-affected areas of

Mindanao). Too-rapid population growth increases the pressure on the country's institutions and resources and contributes to instability.

Structural Poverty. The proportion of Filipino families living below the poverty line has increased since the Asian financial crisis. Although poverty is more predominant in rural areas, a growing population of urban poor living in informal settlements strains the capacities of the country to deliver basic services. According to the 2003 Human Development Report (HDR), the Philippines ranked 85th out of 175 nations on the human development index. In the ARMM, economic and social conditions are much worse than in the rest of the country. Life expectancy in the ARMM is 55 years (national average of 69.5); 63 infants die for every 1,000 (national average of 31); and 61% of the people are poor (national average of 34%). Given current population growth rates, the Philippines will require two decades of very strong economic performance to reduce its absolute poverty rate to the level that Thailand had reached by the mid-1990s.

Gender Inequities in Access to Opportunities. Poor, indigenous, and Muslim women continue to have limited access to enabling knowledge, skills, and resources. They experience higher rates of unemployment and illiteracy and are vulnerable to domestic abuse, human trafficking, and lack of food security. Across the different national elective positions in the country, women occupy only 8 to 17 percent of all positions. On the other hand, more boys drop out of school as they begin to reach grades 4 to 6, especially in the conflict-affected areas.

Deterioration of the Education System. The Philippines education system, once one of the best in Asia, has deteriorated alarmingly in both quality and access. Key comparative advantages (e.g., a literate English-speaking labor force) are disappearing. In the ARMM, student-teacher ratios are estimated at 80-100 to 1, with nearly 30% of the population above 10 years of age illiterate. Net secondary enrollment in 2000 was only 30%, less than half the national average. Many poor Muslim children, with no alternatives available, receive their only formal education from *madari* (Islamic schools), from teachers who use curricula developed in the countries in which they were trained (e.g. Pakistan, Libya, Saudi Arabia). Often, these do not include adequate or any instruction in math, science and English.

Environmental Degradation. Environmental degradation is an increasingly grave threat to food security and the country's significant biological diversity. The Philippines, one of the world's top biodiversity hotspots, has lost 80% of its forests in the last century and now has the highest deforestation rate in Southeast Asia. Water supplies in many areas are problematic, with major impacts on agricultural development and indigenous peoples who have lived in forested areas for generations. Traditional fishing grounds are 20-40% over-fished and some may crash in the next ten years. Such environmental problems contribute to rapidly increasing rural-to-urban migration, placing greater stress on an already inadequate infrastructure.

Although communities have increasingly been involved in developing and implementing environmental rehabilitation and management programs, further efforts are needed to fully empower LGUs and people's organizations to protect and sustainably manage their environmental resources. Women are under represented in the planning and monitoring of these programs, and their knowledge and skills are often not fully utilized in support of these efforts.

Progress

Despite the challenges that remain, significant development progress is being made and the opportunities for bringing about systemic change for greater national and regional stability are many.

Conflict. Over 24,000 MNLF former combatants have “graduated” from USAID’s Livelihood Enhancement and Peace Program (LEAP) and are now reintegrated into the peaceful economy as successful seaweed, corn and rice farmers; this number will reach 25,000 in early 2005. *LEAP offers a remarkably clear and powerful model to encourage an agreement with the MILF.* Over 2,800 homes in former rebel communities have been electrified and economic opportunities in Mindanao as a whole have expanded through producer organizations and the growing of higher value crops. Rural banks serve 125,000 micro-borrowers and 225,000 micro-depositors, while credit cooperatives reach almost 424,000 members, about 70 percent of whom are women. Over 120 community infrastructure projects support increased productivity and economic growth. ARMM Governor Hussin has said that these activities “have quickly demonstrated tangible benefits to peace.”

Fighting Corruption. USAID/Philippines has helped local partners to reform government procurement and improve tax and customs administrations. Efforts to improve revenue generation and transparency are beginning to bear fruit, with collections in 2003 exceeding targets. Initial efforts by the new Ombudsman (special prosecutor) are encouraging, with important increases in convictions of corrupt government officials and a growing momentum to catch the “big fish.” The Ombudsman and other key corruption-fighters are expected to remain in office through most (or all) of the new strategy period, offering an unprecedented opportunity for systemic and lasting change.

Rule of Law. USAID/P helped the GRP to formulate and implement anti-money laundering legislation to combat terrorist financing and corruption. Judicial strengthening and mediation efforts have helped expand access to justice for the poor (with an emphasis on the ARMM), reduce conflict, and institutionalize mediation in other courts and provinces. USAID/P helped the GRP to formulate an Alternative Dispute Resolution Act, which seeks to de-clog court dockets and do away with

lengthy and costly court proceedings. The establishment of neighborhood paralegal committees and village justice advocates has helped solve many cases of domestic and sexual abuse.

Trade and Investment. Despite major challenges from vested interests, USAID/Philippines' programs have helped the GRP and other partners to remove barriers to competition and encourage increased efficiency in such sectors as air and sea transportation, trade (consistent with WTO), agriculture, and information and communications technology. Support has also been provided to help define sectoral rules and regulations, and implement various improvements in government processes. It is *absolutely* critical for the long-term, sustainable growth of the country that such reforms, which also address the very roots of corruption in the Philippines, continue to be made.

Power Sector Reform. As U.S. Department of Energy Secretary Abraham reiterated during his recent visit to the Philippines, reform is vital for increasing competitiveness and reducing corruption. The transparency introduced by the still-fledgling Energy Regulatory Commission will be basic to improving the investment climate. Path-breaking reform legislation was passed in 2001, but effective implementation – as well as the development of major new initiatives including promotion of natural gas and renewable energy, such as coconut methyl ester (CME) – will benefit greatly from additional USAID support. CME is an indigenous and cleaner fuel produced locally from coconut oil which, when blended with petroleum diesel fuel, has been found to reduce significantly harmful emissions. We have also provided communications and technical assistance to support development of an Executive Order directing the use of 1% coconut bio-diesel by GRP vehicles. To reduce vehicle emissions, we helped the private sector establish 300 vehicle emissions inspection centers, where motorists can comply with mandatory emission inspections, now required for all vehicles. We also support the use of cleaner burning fuels, such as compressed natural gas (CNG), and we are engaged in a public-private alliance that will introduce CNG-powered buses on the streets of Manila in 2005.

The continuation under the new strategy of SO₂, in particular, and SO₄, will be especially important for obtaining further, key structural reforms.

Education. Ongoing assistance includes Mindanao teacher training in English, Math and Science (through a partnership with Peace Corps); reducing corruption by monitoring textbook procurement; assisting ARMM communities improve schools via matching grant programs; and improving computer literacy and internet access in CAAs by working with private sector partners. A Congressional Internship Program has allowed talented Muslim university graduates to work with GRP congressional committees, fostering understanding and creating a pool of ARMM-based public service professionals. Several private-public alliances are being developed in areas such as distance learning and programs for out-of-school youth.

Improved Governance in the ARMM. Management systems and capacity are being enhanced, vital efforts to help the ARMM government structure. Productive partnerships have been built and sustained with Business Support Organizations (BSOs), local governments, and the national government. USAID/Philippines will support increased transparency and accountability with anti-corruption training and action plans, often linked to investment promotion efforts.

Environmental Governance. Increased transparency and accountability in governance of forests and fisheries, solid waste, and water are lessening corruption and reducing conflict. A new Environment Secretary initiated positive endeavors, as evidenced by the establishment of a Code of Good Environmental Governance for employees of the Department of Energy and Natural Resources (DENR). Many LGUs are now strongly committed to improved management, including when investing local counterpart resources, and local leaders are demonstrating increased ownership, capacity, and political will in managing environmental resources. Our focus on building the capacity of local governments and community organizations is showing considerable progress. About 105 LGUs have improved the management of 35,600 hectares of coral reefs, mangroves and sea grass beds, and 79 LGUs have committed more than \$731,000 of their own resources to improve the governance of forests, coastal resources and solid waste. USAID/P helped the GRP formulate a Clean Water Act which will provide a new policy framework for the prevention, control and abatement of pollution of the country's water resources.

Private Sector Provision of Family Planning and Health Services. USAID/Philippines actively involves private sector partners in its population and health programs. For example, there are over 210 Well-Family Midwife Clinics (WFMC) nationwide (with 86 in Mindanao). The midwives themselves invest funds in these clinics and become entrepreneurs, giving clients who can afford to pay access to better quality reproductive health/family planning services while reducing the burden on the public sector. The WFMCs are a model of sustainability and are now supported by an independent foundation co-managed by eight NGOs. This program has also tapped into the Agency's Development Credit Authority (DCA) to help guarantee loans to these "midwife entrepreneurs" -- the first such use of DCA in the health sector.

IV. Strategic Framework and Rationale

USAID/Philippines' Strategy Support Group (SSG), with representation from all USAID/P offices, guided development of this strategy. Initially, a series of discussions were held with expert speakers and panels of leading Philippine public and private sector thinkers. Resource persons included representatives from civil society, government, the private sector, and other stakeholders. USAID/P-wide brainstorming sessions involving staff at all levels laid the groundwork for a strategy retreat with ANE/ESA participation. The strategy was refined through a team effort involving existing SO teams, working groups focusing on conflict and education, the U.S. Mission's Country Team, development partners, the GRP national agencies and local government units.

Relationship between the Previous and New strategies

USAID/Philippines' previous strategy, developed in the wake of the Asian financial crisis, had as its goal to "revitalize the economy and transform governance to accelerate sustainable growth." Three Strategic Objectives focusing on traditional USAID areas of concern (health, environment, and economic growth and governance) reflected both U.S. Mission goals and interests at that time. In March 2001, the strategy was amended to also include a Special Objective addressing conflict in Mindanao, reflecting USAID/P's early recognition of the importance of reducing conflict there. In addition, a new SO to "increase access to quality education and livelihood skills in selected areas, particularly those affected by poverty and conflict" was approved in September, 2003 as an amendment to the current strategy, with the understanding that this SO would be carried over to the new strategy. President Bush, in his speech to joint houses of Philippine Congress, cited USAID/Philippines' new education initiative and stressed the strong linkage between education and combating terrorism.

Recognizing the links between the low level of development in the CAAs and ongoing conflict and instability, USAID/Philippines directs an increasing proportion of its assistance to Mindanao under all of its SOs. From a level of \$19.0 million, or 43% of USAID/P funding in 2001, total USAID/Philippines assistance to Mindanao increased to \$41.65 million in 2003 (58% of USAID/P funding). Funding for activities in Mindanao is expected to remain at approximately this level in FY 2004. See Annex B for locations of USAID activities in Mindanao.

In November of 2001, USAID/P established its own internal Mindanao Working Group (MWG) to better coordinate the growing portfolio of assistance activities focused on Mindanao, consisting of senior members from all SO teams and staff offices, and key implementing partners, including other USG agencies such as the Public Affairs Service/Cultural Affairs, JUSMAG and Civil Affairs. The MWG is chaired by the

USAID/P Deputy Director. The MWG ensures better targeting and complementation of assistance activities, including site office co-location for several activities and addressing the special security and other requirements of working in the conflict affected areas. The MWG will continue to play an important coordinating role throughout the new strategy period. USAID/P also participates actively in an informal donor working group on Mindanao as well as a more formal GRP MWG which includes key public and private sector actors engaged in peace and development efforts for the island. Encouraged by the results of coordination under the USAID MWG, USAID/P is also reviving its democracy and governance working group to better coordinate DG activities across the portfolio.

Given the evolving strategic context and the concomitant evolution and growth of the USAID/Philippines' program, the new strategy includes a new Strategic Objective (SO12) addressing conflict more comprehensively and with a broader geographic focus. SO12 will supersede the current, Mindanao-specific Special Objective (SO10).

USAID/P's education SO (SO11) focuses on improving education in the CAAs of Mindanao and the ARMM in particular. A better educated populace (including with better English language skills) will help to attract increased investment and create new jobs in areas badly in need of economic stimulus. The youth accessing such educational programs will be able to compete more effectively for job opportunities. Addressing the disparities in education between the ARMM and the rest of the country will also demonstrate a commitment to greater equality and help reduce the widespread sense of alienation and exclusion in the ARMM.

SOs 2, 3 and 4, which address Economic Growth and Governance, Family Planning and Health, and the Environment, respectively, have helped importantly to address some of the country's most important development challenges. Continued work in these sectors will be important in bringing about long-term, real systemic change for millions. Change of this depth and breadth is far from easy, but in the last two years alone, USAID/P has helped dedicated local partners achieve the results described below.

Recent USAID/Philippines-Supported Accomplishments:

- Government procurement reform and improved tax and customs administration, which will save and earn hundreds of millions of dollars each year, dollars that can go into schools, health clinics and other infrastructure.
- Anti-money laundering legislation to combat terrorist financing and corruption.
- An increase in the Ombudsman's conviction rates of corrupt government officials.
- Protection of intellectual property and improvement of the investment climate through the Optical Media Law.
- Judicial strengthening and mediation efforts to expand access to justice for the poor, reduce conflict and institutionalize mediation in other courts and provinces.
- Removal of some barriers to competition in trade, telecommunications and transportation;
- Reduced corruption in textbook procurement; ARMM schools improved via matching grant programs; and improved computer literacy and internet access in conflict affected areas.
- Less corruption and reductions in conflict through increased transparency and accountability in governance of forests and fisheries, solid waste, and water.
- Improved capacity of Energy Regulatory Commission (ERC) to determine fair and appropriate utility rates.
- Electrification of off-grid villages in remote conflict affected communities.
- In family planning and health, a dramatic strategy shift in working with the private sector; endorsement by Muslim religious leaders of modern methods of family planning; expanded health insurance to fight TB more effectively; and continued low incidence of HIV/AIDS.

Strengthened and sharpened by experience, these SOs will continue in the new strategy. USAID/P's anti-corruption assistance under SO 2 will continue with greater emphasis on assisting anti-corruption champions (e.g., the Ombudsman). Under SO 3, in a major shift from the decades-long practice of foreign donors, including USAID, contraceptive self-reliance through the greater engagement of the private sector will be promoted. Under SO 4, USAID will assist the GRP to achieve energy security to avert a new power crisis, lay the foundation for the Philippines in joining the hydrogen economy, and increase access to potable water supply.

Strategic Framework and Rationale

USAID/Philippines new five-year strategic plan runs from October 1, 2004 – September 30, 2009. USAID/Philippines' Strategic Goal for its new strategy is "Enhanced security and accelerated progress towards sustainable, equitable growth through improved governance, capacities, and economic opportunities." This Strategic Goal supports USAID/P's long-term Development Goal of "Sustainable, equitable prosperity and peace."

The new strategy focuses on achieving progress in the following areas, each of which contributes to the Strategic Goal:

- ◆ Enhancing security by reducing conflict in Mindanao and other areas vulnerable to violence (SO12);
- ◆ Improving performance of selected government institutions (SO2);
- ◆ Promoting health and well-being among Filipino people through improved and decentralized service delivery, increased private sector involvement, promoting social acceptance of family planning, and policy reform (SO3);
- ◆ Strengthening management and governance of life-sustaining natural resources, better urban environment management, and reliable and cleaner energy (SO4); and
- ◆ Enhanced human capital, particularly improved access to quality education in conflict-affected areas of Mindanao and broader policy reform (SO11).

USAID/P is not required to report on progress towards achieving its Strategic Goal or the long-term Development Goal, both of which are outside its “manageable interest.” Factors outside the control of USAID/Philippines will impact its ability to achieve its higher-level, longer-term goals; for example, the external environment, the political will of the Philippines, and activities of other donor programs. Broad indicators of progress towards these goals (e.g. reduced poverty levels, more equitable income distribution, improvements in human development indicators and decreased conflict) will be tracked.

Increased investments will be essential for attaining USAID/P’s goal. Maximizing the returns on public sector investments requires efficient, effective and transparent use of resources. In the private sector, investors make decisions based on risk analysis, which leads them to prefer, among other things, a transparent business environment; a “level playing field”; consistent application of economic policy and rule of law among parties and over time; and a stable political environment with low potential for conflict. These imperatives are recognized and integrated into the new strategy, and are addressed in all SOs.

USAID programs in each SO help attack corruption as part of their emphasis on improving governance, although programs under SO2 do so by focusing explicitly on corruption that deters investment. They also focus on improving the administration and the provision of goods and services upon which businesses rely. SO 12 addresses the violent conflict in the Philippines that has been both a long-standing deterrent to investment and a drain on public resources. By giving marginalized people a stake in the peacetime economy, this SO helps make the opportunity cost of turning to violence high.

Private investors also desire a skilled and healthy labor market, an environment in which the costs of doing business are internationally competitive, and where the supply of natural resources is dependable over time. These concerns are addressed by

USAID/Philippines' environment (SO4), health (SO3), and education (SO11) programs. The concerted effect of these activities is to support a positive investment climate and sustainable economic development. SO3's focus on helping people gain more control over their reproductive lives and thus reducing the rate of population growth is, in turn, essential to achieving sustainable, equitable economic growth in the Philippines. Population pressure spreads the benefits of growth, namely higher incomes and greater access to social services, too thinly. Moreover, population pressure contributes to the degradation of the environment, which is a key source of the nation's wealth.

Fostering a more pluralistic, accountable and inclusive system of democracy that gives meaningful voice and hope to marginalized groups, such as the Muslim minority and the poor in general, is an important end in itself, but is also, USAID/P believes, key to achieving each of our sector-specific SOs and higher level goals. For this reason, in both the previous and the new strategies, Improved Governance is a cross-cutting theme rather than a stand-alone objective. All SOs include efforts to improve governance at the local and national level. For example, giving meaningful voice and hope to marginalized people is a form of empowerment, and thus a means to reduce the incentives to pursue violent resolutions to grievances. A pluralistic, inclusive system of democracy also tends to promote the kind of competition and transparency that encourages both public and private investment and equitable delivery of public services and goods including in the health, education, and environmental management sectors. This improves the quality of life for Filipinos, international competitiveness, and the conditions for accelerated and more equitable economic growth.

The strategy's cross-cutting approach to governance is essential in the Philippines, a country in which a Local Government Code calls for comprehensive decentralization of government services in all sectors. During the 1990s, USAID was very successful in helping the Philippines strengthen democratic decentralization and build capacity of local governments and non-governmental organizations. USAID now incorporates improved governance in each of its SOs, with particular emphasis on improving transparency, accountability, and efficiency. For example, USAID's EnRICH program under SO3 provides assistance to LGUs in the ARMM to improve the provision of maternal child health care and enhance community faith in local governance. Similarly, the LEAD program in the health sector focuses explicitly on LGU capacity building and management. USAID's EcoGov program under SO4 works with communities and local governments throughout the Philippines to better manage threatened coastal and forest resources, with a strong emphasis on transparency and accountability. The new SO11 Education program is similarly being designed to include a focus on governance as a key element in obtaining positive change, and sustainability.

Recognizing the need to strengthen rule of law in the Philippines, the strategy includes activities designed to help the legal-judicial system become more transparent and

predictable. Supported activities are targeted to help build organizational capacities in the Supreme Court and in the Regional Trial Courts, and mediators have been extensively trained as an effective alternative to litigation. These activities will be expanded under the new strategy, as will anti-corruption activities having important impact in improving the efficacy of the Philippines' legal-judicial system (for more detail, see part V Strategic Objectives, section on SO2, IR1).

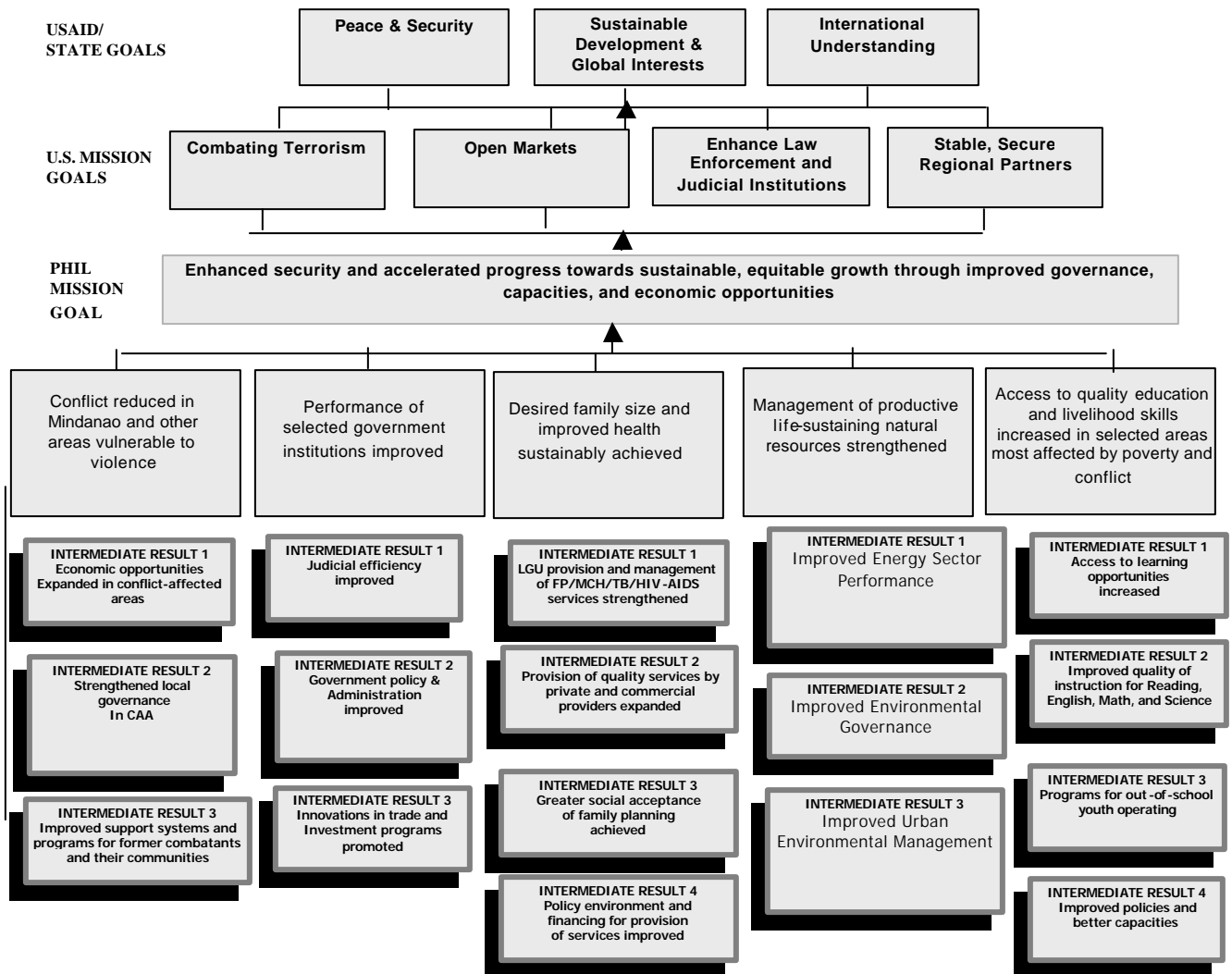
USAID/Philippines does not have a specific Agriculture SO in its current or proposed Strategic Framework. However, activities benefiting the agricultural sector are present in many parts of the USAID program, reflecting both the high priority accorded to supporting adequate food supplies for the poor and increasing the Philippines' competitiveness in international markets. Food security is also a function of: (a) the degree of openness of the country to traded food commodities, and (b) the effectiveness of domestic markets in transporting food supplies to areas where net food demands are positive. Thus, USAID will continue to promote improved agricultural policies, productivity, marketing, and sustainable resource management, particularly in poor, rural areas of Mindanao. Agriculture plays a critical role for USAID's conflict strategy since it is one of the few ways in which USAID can directly and effectively increase income in conflict affected areas. USAID/P believes that, with its assistance, Mindanao nontraditional exports to China can be tripled over the course of the strategy.

Moreover, a significant portion of USAID's Mindanao portfolio falls under the new SO12, and includes what is, in fact, one of USAID's largest agricultural development programs in Asia. The GEM project provides assistance in such areas as agribusiness development and trade and investment in agriculture. USAID/Philippines works closely with producer associations, cooperatives and small farmers to improve agricultural productivity, often by linking farmers and fisherfolk with markets. For example, the Targeted Commodity Expansion Program (TCEP) substantially expanded the marketing of mangoes and other high value fruits, vegetables, and seaweed. Efforts to strengthen national and local environmental governance (e.g. forested upland watersheds, coastal resources) contribute to food security and a better environment for agriculture.

The Proposed USAID/P Program Strategy, including proposed SO statements and Intermediate Results (IRs) is shown graphically below. The proposed SO level strategies are described in Section V below.

Table 1

USAID/Philippines Results Framework



Relationship of USAID Strategy to U.S. Mission Goals

The FY 2004 Annual Report Guidance states that: “operating units no longer need to link strategic objectives to both USAID Objectives and State Mission Performance Plan (MPP) goals; with the new strategy, they are now the same.” Thus, this Strategy paper discusses the linkages between USAID/Philippines SOs and the MPP. USAID’s strategy aligns with the following four goals of Post’s FY 2005 and FY 2006 Mission Performance Plans (MPP).

- **Prevention and Response to Terrorism:** USAID’s proposed strategy addresses this issue through the new Conflict Strategic Objective (SO12), the new Education SO (SO11), and various elements in other SOs to improve the quality of life in CAAs, or conflict-affected areas particularly in Mindanao.
- **Economic Growth and Development:** Increased investment and decreased population growth are fundamental to achieving prosperity and peace in the Philippines. Among the prerequisites are transparent and accountable governance; rule of law; an open and competitive economy; a healthy and educated workforce; equitable access to economic opportunities and social benefits; and sustainable environmental resources. These issues are addressed through the proposed SOs, as well as through the crosscutting objective of improved governance.
- **Law Enforcement and Judicial Systems:** USAID/Philippines’ proposed strategy emphasizes helping make the legal-judicial system more transparent. SO2 specifically addresses the need to improve legal systems.
- **Stable, Secure Partners:** The Philippines is a partner in the GWOT. However, terrorist elements in the southern Philippines maintain links with counterparts in other countries that support violence and terrorist training. Thus, USAID activities that strengthen peace and development in Mindanao contribute directly to stability in the Philippines and South East Asia. All SOs aim to mitigate the conditions that lead to conflict and terrorism in the Philippines, particularly in Mindanao.

Relationship of USAID Strategy to Joint USAID-State Department Strategic Goals

- **Peace and Security:** At the core of the strategic framework is an emphasis on reducing conflict and enhancing stability. These efforts, as reflected in the new Conflict SO (SO12), will promote peace in the Philippines and contribute to regional security. The new Education SO (SO11) addresses the political marginalization of Muslim and other impoverished and conflict-affected communities in Mindanao. Taken together, these programs will help to reinvigorate the Philippines' human capital, promote healing from conflict-associated damage, and ultimately support sustainable peace in South East Asia.
- **Sustainable Development and Global Interests:** All USAID/Philippines' activities support the Philippines' efforts towards sustainable, equitable development. Improvements in social and economic development contribute to national and regional stability. Those outcomes are congruent with USG global interests.
- **International Understanding:** By providing technical assistance and training to Philippine counterparts and clients, USAID programs help build mutual understanding and respect.
- **Strong Diplomatic and Program Capabilities:** The continued success of these programs reinforces USG diplomatic efforts to preserve and strengthen the important and enduring U.S.-Philippines relationship.

Relationship of USAID Strategy to the Government of the Republic of the Philippines (GRP) Development Objectives

The GRP is formulating a new medium term development plan for 2005-2010 which is based on re-elected President Gloria Macapagal-Arroyo's ten-point agenda. Examples of how USAID activities support current GRP development priorities include:

- **Job Creation through Enterprise and Agribusiness Development:** USAID programs support creation of a more investor-friendly environment and implementation of the country's WTO commitments; further liberalization of Philippine agriculture policy; promotion of increased competition and/or private sector involvement in transportation services; enforcement of intellectual property rights; financial market development; increased microenterprise access to financial services; removal of administrative impediments to business; and improved management of fish stocks and other resources. USAID programs also help improve worker productivity through support for health sector reform and private sector treatment programs for tuberculosis, innovative health insurance packages, food fortification, and combating HIV/AIDS and infectious diseases.
- **Increased Education Opportunities:** USAID programs help to improve community-based formal and non-formal education; strengthen teaching capacities in math, science, and English; and improve education policies.
- **Balancing the Budget:** USAID programs are helping local partners enhance transparency of economic institutions; and strengthen governance in key government agencies such as the Bureau of Internal Revenue, the Bureau of Customs and the Department of Budget and Management.
- **Decentralization of Progress:** USAID programs help to encourage competition in the telecommunications industry; support RORO transport systems and medium-scale infrastructure projects in Mindanao; and improve transparency and governance at the local level.
- **Provision of Electricity and Water Supply to Barangays Nationwide:** USAID programs are helping electrify remote barangays with renewable energy; improve governance of the power sector; expand use of natural gas; improve water quality management; and promote and improve management of forests and water resources.
- **A Just End to the Peace Process:** USAID programs are helping expand economic opportunities in conflict-affected areas (CAAs); reintegrate former combatants and their communities into the productive economy; strengthen local governance in the CAAs; reintegrate out-of-school youth in the CAAs; and improve support systems and programs for former combatants and their communities.

In addition, USAID will help achieve the above objectives through efforts which address corruption and rapid population growth.

V. Strategic Objectives

1. Conflict Reduced in Mindanao and Other Areas Vulnerable to Violence (SO12)

Background

USAID/Philippines new Conflict SO supports the USAID-State Strategic Goal "Peace and Security" and supports the U.S. Mission Goals of "Prevention and Response to Terrorism," "Stable and Secure Partners," and "Economic Growth and Development." The special objective for addressing conflict in Mindanao (Sp03) in the previous strategy has now evolved into SO12, with the option of implementing activities in conflict-affected areas (CAAs) outside Mindanao as appropriate. Development of the SO was informed by the findings of a Conflict Vulnerability Assessment conducted from May-July, 2003. A more in-depth Conflict Assessment is planned to identify possible additional activities during the new strategy period, including the feasibility of expanding into CAAs outside Mindanao or in non-Muslim areas of Mindanao in which armed insurgent groups are active. The task for USAID is to deliver a program of activities that will help reduce conflict and alleviate its aftermath in Mindanao, while also selectively introducing new elements to enhance the impact of US foreign assistance.

Conflict in the Philippines is jeopardizing the country's economic and social development and represents an important threat to regional security and USG and GRP interests. Both the communist-dominated New People's Army (NPA) and the Abu Sayyaf Group (ASG), which claims to have a radical Islamic separatist agenda, have been designated as terrorist groups and both remain active. While a cease-fire between the GRP and MILF is currently holding, there is the potential of armed conflict erupting. Some of these groups (or factions thereof) are reported to be providing transnational terrorist groups such as Jemaah Islamiyah (JI) with support. Communist insurgencies in the Philippines have proven persistent. The GRP is currently exploring efforts to reach peace with both the MILF and the CPP-NPA.

Conflict jeopardizes the country's economic and social development and represents an important threat to regional security.

The long-standing conflict in Mindanao has roots in the historical poverty and discrimination experienced by Muslims in Mindanao and the nearby Sulu Archipelago. Perceived historical neglect and discrimination against Muslims have contributed to feelings of resentment and alienation from the nation as a whole.

USAID's activities under SO12 will seek to address some of the underlying causes of conflict. Those underlying causes are likely to vary from location to location, and therefore USAID plans to collaborate with a wide range of partners, including coalitions of government, civil society, and beneficiaries and potentially a wide variety of programs. USAID's ongoing GEM and LEAP programs already enlist the support of diverse organizations, including the MNLF, Chambers of Commerce, local government units, cooperatives, and NGOs to help bring about peace and development in Mindanao. Recent collaborative efforts have involved working with the United States Institute for Peace (to support dialogues contributing to peaceful resolution of the conflict) and the National Democratic Institute (to increase civilian control of police and improve community relations). Such partnerships will play a key role during the new strategy period as USAID broadens its program to support activities that support peaceful resolutions of disputes associated with clan conflict, land disputes, and other key sources of conflict. Activities in areas related to natural resource-based conflicts will be complemented and reinforced by specific project activities in environment (managed by SO4, but coordinated with SO 12 activities). Similar collaborations with the health and education SOs are likely, including addressing the problem of rapidly increasing numbers of out-of-school and out-of-work youth, which provide a potential pool of recruits for terrorist groups active in the Mindanao. The participation of Muslim women leaders in program implementation and peacekeeping activities will be further strengthened.

USAID is awaiting the outcome of ongoing peace talks between the GRP and the MILF. SO12 is intended to be flexible enough to respond to the parameters of any forthcoming peace settlement. At the appropriate time (and if adequate funding is made available) USAID is ready to extend its proven programs to include MILF ex-combatants and their communities.

Should there be a GRP-MILF peace, available information suggests that the MILF would desire a similar "package" of services to those provided under existing programs (e.g., GEM, LEAP). However, some modifications to existing programs will be required to support peace given the somewhat different profile of MILF ex-combatants as compared to MNLF ex-combatants (e.g., they are likely to be somewhat younger and less educated than MNLF former combatants). Specific adjustments and refinements to MILF ex-combatant programs will be determined subsequent to the findings of the Conflict Assessment and taking into account relevant parameters of any peace settlement.

USAID may also be able to play a useful role in addressing conflict in areas other than Muslim Mindanao. There are a number of provinces and municipalities outside the CAAs in Mindanao where poor social and economic conditions may encourage growth of criminal gangs and/or terrorist groups.

The existing special objective (Sp03) for addressing conflict in Mindanao will be closed out after all funds obligated through FY 2004 have been disbursed. Activities currently being carried out under Sp03 will be funded under the new SO beginning in FY 2005. Should the peace process prove successful, additional funds would be needed in the initial years, potentially through FY 2006, for reintegrating and otherwise assisting MILF ex-combatants and their families.

Intermediate Result 1: Economic opportunities expanded in conflict-affected areas (CAAs)

USAID will encourage economic development in selected CAAs, with an initial focus on CAAs in Mindanao and the ARMM in particular. Local organizations that support peace, such as the *Bangsamoro Women's Foundation*, may continue to receive support. Programs for indigenous peoples affected by conflict may be developed, while microfinance initiatives serving micro-entrepreneurs (primarily poor women) may be expanded. Agriculture will remain a major focus, in tandem with specific interventions designed to reintegrate former combatants into productive social and economic roles.

Investments in areas outside the ARMM and other CAAs of Mindanao have proven highly productive. Southern and northern Mindanao are engines of Mindanao's economic growth, and are thus critical for ARMM's economic success. USAID will continue to support Mindanao-wide economic growth and the development of economic infrastructure and mechanisms to support the private sector, especially through Business Support Organizations. These include both island-wide groups such as the Mindanao Business Council and geographic or sector specific groups such as the Western Mindanao Seaweed Foundation. Subject to further evaluation, similar activities may be developed in other parts of the country where poverty, social injustice, and instability are most pronounced.

Intermediate Result 2: Strengthened local governance in CAAs.

USAID will help the ARMM government, and local government units (LGUs) in the ARMM, to become more professional, effective, transparent and autonomous. Programs will be designed to improve the ARMM's capacity to deliver basic services (especially in health and education sectors). USAID/P may also explore supporting additional university-based centers for good governance in Mindanao.

USAID/Philippines will continue to enhance access to justice by supporting programs such as alternative dispute resolution (ADR) and mediation and building the capacity of local level barangay justice systems. USAID/P will also continue to support groups involved in disputes revolving around human rights and land and resource issues.

Carefully selected legislative initiatives in the ARMM may be supported through technical assistance and support for research, and public education and hearings. USAID will also support further initiatives to give “voice” to politically and socially marginalized groups. Such groups might include women, the poor, former combatants, religious minorities and indigenous people. Assistance may be provided in the future to help such groups, should they choose to evolve into political parties, and to support the development of additional civil society groups. USAID recognizes the sensitivity of working with political parties at any stage of development, and will, consistent with the ADS, “make a good faith effort to assist *all democratic* parties with equitable levels of assistance.” In any case, such activities will be undertaken as part of an integrated portfolio of activities that is consistent in all respects with USG foreign policy interests and ADS requirements.

USAID will establish and periodically review assistance priorities based on criteria such as political importance, impact on the served population and cost effectiveness.

Intermediate Result 3: Improved support systems and programs for former combatants and their communities

USAID plans to refine its conflict programs by conducting a more in-depth conflict assessment later this calendar year. However, given the clear success of USAID initiatives to reintegrate MNLF former combatants and their communities into the economy and civil society, many of the USAID’s existing activities under the LEAP-GEM programs will probably be continued, in complementation with GRP interventions. Initial activities for former combatants are not sufficient to ensure long-term reintegration of these individuals and their broader communities. They may not fully address the alienation felt by long-marginalized groups. Activities to help ex-combatants make a living will be reinforced by assistance for beneficiary-identified community priority needs such as provision or repair of infrastructure (e.g., farm-to-market roads and potable water systems in the CAAs, crop diversification assistance, expansion of microfinance availability). These activities are designed to benefit ex-combatants, their communities, and the surrounding areas (including helping many individuals/families who did not engage in conflict). Women who have lost their spouses during past hostilities and are now single heads of households will be eligible for livelihood and social programs. To ensure ownership and sustainability of initiated programs, USAID will give emphasis to community investment counterpart funding and commitment to necessary operating and maintenance efforts and resources.

Illustrative Indicators: Cumulative number of former combatants reintegrated; cumulative number of new microenterprise borrowers and/or microsavings accounts (both male and female); cumulative number of community infrastructure projects; annual percentage increase in metric tons of fruits/vegetables

shipped from Mindanao to domestic markets by members of USG-assisted associations; annual percentage increase in metric tons of fruits, vegetables and fish exported to foreign markets by members of USG-assisted associations/firms (not including bananas).

2. Performance of Selected Government Institutions Improved (SO2)

Background

The performance of the Philippine economy has been disappointing over the last few years, as reflected in sluggish exports, decreasing foreign investments, and continued poverty. Tax revenue fell from 17 percent of GDP in 1997 to 12.4 percent in 2002, while public debt has expanded to levels that pose risks to macroeconomic stability. The banking sector is under stress, with non-performing loans close to 15 percent of aggregate loan portfolios. Efforts to privatize large publicly owned entities have been moving too slowly and regulatory bodies are weak or overworked. At a broad level, the country's economic performance has been hampered by barriers to investment and competition associated with corruption, inappropriate or poorly enforced regulations, and backlogged courts.

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The cumulative impact of continued lack of adequate transparency and corruption is substantial. Following EDSA I and "People Power" leading to the overthrow of Marcos, the Filipino people held high hopes for their renewed democracy under President Aquino. The mid-1990s were characterized by strong economic growth, liberalization of the economy, and somewhat improved cross-national rankings on Transparency International's Corruption Index. However, this progress was not sustained: major reversals were experienced since the Asian Financial Crisis (1997) and corruption continued during the Estrada period (1998-2001). One consequence has been a growing sense of frustration among Filipinos, as reflected in public surveys.

USAID's previous strategy (October, 1999) mainstreamed the previous Democracy and Governance (DG) program by integrating it as a key element in a broader USAID portfolio.¹ DG objectives and resources were incorporated into economic development (SO2), population and health (SO3), and environmental management (SO4) offices. In all USAID/P offices, DG elements are taken into consideration

⁵Two previous DG assessments conducted by USAID/W/G/DG have concluded that USAID/Philippines' DG activities have been widely recognized as successful and that the "bundling" of DG activities in the OEDG portfolio and mainstreaming across the other SO teams has been effective.

(e.g., identifying the political aspects of activities; supporting constituencies for reform; and improving governance).

USAID's Office of Economic Development and Governance (OEDG) implements both economic growth work and activities that have traditionally fallen under the Democracy and Governance (DG) sector. USAID supports transparent economic institutions, better tax collection, efficient and corruption-free customs valuation, and reform of government budgeting and procurement at national and local levels. SO2 also addresses numerous DG concerns.² USAID supports the rule of law, improved transparency and public participation in governance, and an empowered civil society (as reflected in the fact that approximately half of USAID's OYB funding goes to NGOs). USAID also is currently supporting a fair and transparent electoral process in the 2004 election with approximately \$1 million in assistance. Other DG-related activities include USAID support for smaller programs such as educating the deaf, helping the handicapped, and protecting vulnerable individuals from human trafficking.

During the 2000-2004 period, SO2 was accountable for achieving the previous IR ("More transparent, accountable and responsive government institutions). The well-regarded Governance and Local Democracy (GOLD) project developed best practices for local governance, especially in the area of constituency building. The Transparent and Accountable Governance (TAG) Project continues GOLD's work with local governments, albeit with a tighter geographic focus – Mindanao. TAG's LGU activities are also more tightly focused - on transparency and honest governance and increased public participation in government decision making. TAG also helps build support for anti-corruption at the national level, e.g., working with the Makati Business Club to build constituencies for anti-corruption in the business community.

USAID supports various constituencies for reform both inside and outside government. Good examples can be found in telecommunications and the financial sector, areas in which USAID-supported activities have helped generate a political will for reform. USAID supports work at the Securities and Exchange Commission (SEC) involving development and dissemination of booklets on anti-pyramiding schemes, an information campaign that has been effective in building constituencies for fighting investment fraud. In Mindanao's seven cities, USAID has fostered a sustained dialogue between city officials, the business sector, and NGOs, resulting in broadly supported reform agendas in the areas of procurement and government services.

Despite the challenges described above, the GRP has taken important steps towards systemic change and USAID has helped. In 2003, the Philippine Congress amended the 2002 Anti-Money Laundering Act to address the concerns of the Financial Action Task Force (FATF), thus strengthening the fight against terrorism and corruption. Increased tax and customs collections are improving the fiscal situation, with help from USAID for third-party verification and post-entry audit. USAID has helped

strengthen the protection of intellectual property rights (IPR) in the country by helping the GRP to draft the Optical Media Bill (signed into law in February, 2004). USAID also helped strengthen IPR in the biotechnology sector by supporting preparation of the implementing rules and regulations for the Plant Variety Protection (PVP) Act, as well as developing a plant varieties database, screening guidelines, and manuals on PVP policies and procedures. USAID assistance has helped reduce inter-island shipping costs through support for the use of Roll-on Roll-off (Ro-Ro) technology in the country's sea-land transportation system, an innovation that the GRP has implemented in the face of significant opposition from vested interests.

Nevertheless, there is no question that the investment climate remains weak. Long-term economic development in the Philippines is undermined by corruption. Recognizing this, USAID has worked extensively with the Bureau of Internal Revenue (BIR) for both macroeconomic reasons (i.e., revenue generation) and as a wedge against corruption. USAID works closely with local governments and civil society to combat corruption, and each project integrates governance and anti-corruption components into its activities.

There are some very positive signs. High-level champions in the battle against corruption now include key figures with constitutionally-protected positions (e.g., the Chief Justice of the Supreme Court, the Ombudsman, the Civil Service Commissioner (CSC), and the Commissioner on Audit (COA)). USAID supports the Office of the Ombudsman (through capacity-building) as it is the institution with the mandate and the broadest powers to fight corruption in the public sector. The Ombudsman has gained increasing visibility and credit for its dramatic campaign against corruption involving high-profile lifestyle checks. The impact of such investigations is increasing as the Ombudsman targets "big fish." For example, there was a recent filing of graft charges against a Congressman for allegedly diverting over 10 million pesos in government funds to entities controlled by his family, and a BIR Assistant Commissioner was suspended. Capitalizing on USAID's training assistance, the Ombudsman is working to double the number of investigators and prosecutors, and the CSC and COA are now exploring unprecedented anti-corruption reforms.

USAID encourages the public and private sectors to work together in the fight against corruption. One area in which public-private sector cooperation is playing a key role is in procurement reform. USAID helped the GRP to design a procurement executive order and provided insights for supporting legislation. Currently, it has several activities that help implement the Government Procurement Reform Act (GPRRA). The USAID-supported Procurement Watch has conducted training/awareness programs for members of Bids and Awards Committees, civil society organizations, and the business sector in seven cities in Mindanao. USAID has helped local partners to develop procurement manuals for government officials and private sector groups and has supported "train the trainer" programs that will benefit thousands of local government officials. USAID also supports e-Governance initiatives that remove constraints for local governments as they adopt new systems and procedures and make them accessible online.

At the current pace of the program, USAID can continue to implement this SO at our projected OYB levels through FY 2009 (see Section VII). If, however, the USG wishes to take maximum advantage of the window of opportunity that now exists to address corruption in the Philippines, USAID must be able to increase its support in response to changing conditions. USAID should have the ability to respond to requests as they arise, particularly in terms of helping government units put new, transparent and accountable rules and systems in place to implement and realize legislative and policy reforms. This involves an even more intensive and costly level of technical assistance than policy development: for example, the kind of on-the-ground assistance and systems development that USAID is providing to the Bureau of Customs to make its operations transparent and efficient.

Intermediate Result 1: Judicial Efficiency Improved

The rule of law in the Philippines can be improved considerably. Some of the predatory practices often reported include unscrupulous businessmen stealing land, illegal logging, and kidnap-for-ransom activities (sometimes involving groups more commonly associated with terrorism). International investors are deterred by the uneven capacity to enforce contracts and the fear of biased temporary restraining orders that can halt their legitimate operations.

USAID helps the legal-judicial system become more transparent and predictable in enforcing laws and policies. Under the USAID-supported Court Watch activity, law students visit court rooms and evaluate judges and attorneys (an important watchdog function). USAID has also supported improved case management in the Supreme Court by jumpstarting help for judicial reform initiatives which are now up and running on a larger scale under a World Bank project. With its more limited funding, USAID nonetheless anticipates being called on by the Supreme Court to assist in specific areas of judicial reform, as discussed below. Using the principles of Alternative Dispute Resolution (ADR), USAID has trained some 400 mediators for the Regional Trial Courts. Proving their effectiveness in providing an alternative to litigation, mediators achieved an 84 percent success rate, successfully resolving 2,471 out of 2,937 court-referred cases between October 2002 and October 2003. As discussed above, the Ombudsman is making significant progress in fighting corruption, with conviction rates going up and the targets of investigations being “higher up” than has historically been the case. USAID also supports a program in which the American Bar Association partnered with the Supreme Court to spur a more open discussion of judicial ethics and the role of the Philippine judiciary in the war on terror. Ethics training, if coupled with enforcement, is expected to be beneficial.

The Philippine Supreme Court has developed a five-year court reform and modernization plan. Through the proposed Rule of Law Effectiveness (ROLE) activity and a cooperative agreement with the American Bar Association, in addition to other activities with existing partners, USAID will assist the Supreme Court

implement key areas of its plan including improvement of judicial ethics by implementation of the new Philippine Code of Judicial Ethics. Further, USAID intends to assist the Supreme Court in its efforts to reduce its case backlog through its review and modernization of Philippine trial practice by improving the Philippine Rules of Evidence, and Rules of Civil and Criminal Procedure. In addition, USAID contemplates incorporating the strengths developed by the Economic Governance Technical Assistance (EGTA) Project by incorporating flexibility into the ROLE activity that will allow it to react to unforeseen opportunities to improve the efficiency and effectiveness of the judiciary. USAID will continue to implement and expand successful existing interventions such as support for implementation of alternate dispute resolution and the computerized case-flow management system. Further, the ROLE activity is contemplated to provide significant technical assistance and training to the Office of the Ombudsman, the Anti-Money Laundering Council, the Bureau of Internal Revenue-Revenue Integrity Protection Service, the Civil Service Commission and the Commission on Audit, with an emphasis on reducing public corruption.

Intermediate Result 2: Government policy and administration improved

Corrupt regulatory agencies can create an uneven playing field and cost the government millions of dollars in badly needed revenues. This IR involves support for a combination of reforms within the executive branch complemented by capacity building – and overall reform of – key government agencies. USAID will continue supporting the strengthening of economic governance in key government agencies (e.g., the Bureau of Internal Revenue, Customs, Department of Budget and Management). USAID will continue to look for opportunities where we can help partners in their efforts to impact on corruption and inefficiency using an array of regulatory, procedural and technological approaches to increasing accountability and transparency, while reducing discretionary actions among officials. This will strengthen public administration, weakened by the cumulative impact of past political abuse, corruption and other factors. If additional funds are available, USAID will be open to the possibility of assistance for electoral system reform. USAID has introduced innovative mechanisms to help build local ownership of policy reform, and will expand these under the new strategy. For example, USAID will provide grant funding for a consortium of NGOs to create opportunities for local organizations in academia and the private sector to provide analysis to support reform. By supporting policy reform writ large and helping to build the relevant public and civil society players, significant policy reforms can be effectively implemented and sustained.

Intermediate Result 3: Innovations in trade and investment programs promoted

USAID will continue its assistance to the GRP to facilitate the country's implementation of its WTO commitments, including customs valuation, government procurement, and sanitary and phyto-sanitary standards. USAID will work to help promote increased competition and private sector involvement in port management and cargo handling services; further liberalization and deregulation of inter-island shipping operations; decreased regulatory obstacles to overland transportation; and increased private investment in port facilities and operations. USAID will also continue to support financial market development, assist the GRP with the implementation and enforcement of intellectual property rights, and work to support competition in the telecommunications industry. USAID also supports the removal and/or modification of administrative impediments to business.

In addition to assisting the national government with meeting its WTO obligations, USAID supports diverse activities that help create a more investor-friendly environment. The USAID-supported Mindanao Business Council now has members drawn from the private sector sitting on the Bids and Awards Committees for public sector procurement processes. USAID's support for RORO transport systems and medium-scale infrastructure projects in Mindanao has helped improve market access and increase exports of agricultural commodities to the ASEAN region. In Mindanao, the TAG Project has supported transparency and good governance at the local level, helping establish a solid basis for economic growth and poverty reduction in the Southern Philippines. In General Santos City, TAG supported the creation of a "one-stop shop" where businesses could meet all requirements for renewing permits, reducing the time required to renew business permits by a factor of seven.

Illustrative indicators: Domestic tax effort; gross capital formation; level of trade protection; job growth in private formal sector employment (male vs. female); public perceptions of the judiciary.

3. Desired Family Size and Improved Health Sustainably Achieved (SO3)

Background

The country's high population growth remains one of its most critical development problems. If the current growth rate of 2.36% continues, the population will double in just over 30 years. The result will be yet a greater drain on the country's already stretched resources, and a further reduction of the potential for economic growth. The bulk of population growth can be expected in urban areas where the population has jumped from 33 percent in 1970, to over 54 percent in 2000. Urbanization of this magnitude strains government and private sector resources. As

If the current growth rate of 2.36% continues, the population will double in just over 30 years.

of 2002 total fertility was 3.5 children per married woman, while desired fertility was only 2.7 children. The number of high-risk births (56.3 %) is a growing concern.

Reducing the Philippines' rapid population growth rate, improving the health and nutrition of mothers and children, reducing the burden of TB and other infectious diseases, and preventing the emergence of an HIV/AIDS epidemic are critical to accelerating the Philippines' economic growth and social development. Such interventions reduce the increasing unmet demands for social services, add more healthy people to the job market and increase productivity, and enable children to reach maximal intellectual capacity and lead healthier, more productive lives. Family planning means smaller family size and longer age intervals of children, which decreases the burden on mother's health, family income, and the educational and health systems.

In recent years, the USAID/P health portfolio has embarked on a major shift, which will be continued in the new strategy. The new strategy in family planning and health emphasizes further strengthening private sector and local government capacity to deliver family planning and reproductive health services. Programs will support local advocacy for health sector reform, private sector treatment programs for tuberculosis, innovative health insurance packages, food fortification programs, and support for activities to combat HIV/AIDS and infectious diseases that focus on sustaining local level capacity for surveillance and education. In order to promote contraceptive self-reliance, USAID will reduce contraceptive donations and tap the large and innovative (but under-utilized) private sector for delivery of basic services (e.g., family planning for those who can afford to pay).

USAID/P's HIV/AIDS surveillance and education activities have supported the national AIDS control program in its efforts to maintain the low HIV/AIDS prevalence rate in the Philippines, even among high-risk groups. However, a rapid increase in HIV infection, starting within high-risk groups and spreading to the general public, could emerge if prevention efforts are not continued and expanded. Some forms of high risk behavior are extensive and unlikely to decline any time soon. Other countries facing these circumstances have experienced rapidly developing epidemics based principally on heterosexual transmission.

Involving the private sector in TB care, using the Directly Observed Treatment - Short Course (DOTS) strategy, is a new development in strengthening TB control in the Philippines. The rapid expansion of DOTS, unfortunately, has yet to impact on the delivery of TB control services within the private sector. At present, many private sector providers do not provide TB control services consistent with DOTS strategy. The USAID/P strategy to address the tuberculosis problem for the next five years will focus on expanding the capacity of the private sector to identify and treat patients using DOTS strategy, including increasing the availability of affordable anti-TB drugs and increasing case detection by developing public-private mix models of service delivery.

USAID/P's health portfolio will extend its already substantial reach in conflict-affected areas of Mindanao. The capacity building elements, especially the improvement of LGU capacities, will empower LGUs to better deliver services and

support a community environment conducive to reintegration of former combatants. These efforts will help reduce conflict and mitigate its effects by increasing the quality and access to health and family planning services in conflict-affected areas. USAID/P gives special emphasis to building LGU capacities in the ARMM.

USAID/P also provides support to national and local governments to increase levels of financing and improve allocation of resources for key health interventions.

Intermediate Result 1: LGU provision and management of FP/MCH/TB/HIV-AIDS services strengthened

USAID/P aims to strengthen the capacity of at least 530 LGUs, representing 40 percent of the population, to provide FP/MCH/TB/HIV-AIDS services. These LGUs will be selected based on a set of criteria developed by USAID (such as LGUs with low contraceptive prevalence rate and high percentage of urban poor, LGUs with strong support for health from local officials, LGUs in the ARMM and conflict-affected areas in Mindanao, and LGUs that are HIV/AIDS sentinel sites). USAID activities will help (a) improve management and information systems (e.g., FP and health program management, financial management and control, quality assurance, procurement) to ensure adequate service delivery and evaluation of impact ; (b) increase the sustainable availability of LGU financial resources by developing new strategies, systems and innovative schemes for resource mobilization; (c) assist LGUs to work towards contraceptive self-reliance; and (d) enhance the quality of FP/MCH/TB/HIV-AIDS service delivery. The performance of service providers will be supported through activities such as expanding contraceptive method choices; developing community-based distribution systems for contraceptives to expand access and availability; encouraging LGU health providers to observe the TB-DOTS strategy as the mode of treatment for TB; developing HIV-AIDS prevention and surveillance strategies in high risk zones; and assessing the strengths and weaknesses in the delivery of MCH services, including improvements in Vitamin A supplementation.

Family planning activities are likely to remain under-funded relative to other local government programs. Family planning will only be appreciated when local decision makers perceive the benefits these activities bring to their constituents. USAID/P communications activities will improve local level understanding and build local support for family planning and health services. USAID/P will work closely with local level decision-makers and managers, as well as identifying and engaging local business groups, NGOs, interest groups, and consumers who can support family planning and reinforce efforts of local political and government officials. USAID/Philippines gives special emphasis on building LGU capacity in the ARMM.

USAID/P's population and health strategy addresses urban health care issues by helping LGUs increase financing for health care, supporting the private sector in increasing accessibility of affordable drugs and contraceptives, and assisting the public sector to improve the quality of health care services, among others.

Intermediate Result 2: Provision of quality services by private and commercial providers expanded

USAID/P will mobilize business support and involvement in family planning, TB prevention and treatment, and food fortification. This includes expansion of private provider participation and increasing the availability of affordable pharmaceuticals and products. USAID/P will support activities to encourage the commercial sector to significantly increase its share of the overall contraceptive market. Availability of lower-priced contraceptive brands in the commercial sector is especially important as free distribution through the public sector is being phased-out in line with USAID's support to the GRP's contraceptive self-reliance strategy. USAID/P will encourage private financing of services for individuals whose income enables them to use the private sector. The Tuberculosis Initiatives in the Private Sector (TIPS) project is helping to strengthen TB control in the private sector by expanding DOTS among private sector health service providers. A new partner in the private sector is a local financing institution that provides small loans for expanding and improving USAID-assisted private midwife clinics utilizing the credit guarantee mechanism under USAID's Development Credit Authority (DCA).

USAID/P will also actively encourage and seek USAID Global Development Alliance (GDA) partnerships in family planning and health. This presents an excellent opportunity for private sector for-profit and non-profit entities (e.g. NGOs) to participate in the program.

Intermediate Result 3: Greater social acceptance of family planning achieved

USAID/P supports a social acceptance project consisting of three components: behavior change communication, advocacy and social mobilization, and service providers. IR3 aims to increase the number of people who strongly approve of family planning and endorse family planning practice to others. The social acceptance project is targeting men and women with unmet need for family planning, i.e., non-contracepting males and females who want to space or stop childbearing; about to marry or newly married couples, and users of traditional FP methods. The behavior change communication component will support campaigns to reach the target clients, including those located in hard-to-reach areas. This component helps the GRP to reposition the concept of family planning, with the objective of helping individuals accept family planning, including being open to discussing and endorsing FP among peers and obtaining FP services and commodities from private sector providers as the free public sector supplies are phased-out in line with the contraceptive self-reliance

initiative. The advocacy and social mobilization component intends to help local partners develop support for FP from different sectors (i.e., urban poor, formal and informal labor sector, business and industry, faith-based groups, youth, women's organizations, and men's groups) who can help inform others on and advocate for modern FP methods. The social mobilization component targets health providers who, based on surveys, are a major source of misinformation on modern FP methods. The social acceptance project aims to upgrade the FP knowledge of health providers primarily through inclusion of FP in the curricula of medical and allied courses and in-service training utilizing evidence-based FP. To determine if greater social acceptance of family planning has increased, we will measure the percentage of the target population who claim they have endorsed FP practice to others. We will do this by comparing the results of a baseline survey (already conducted) and the results of a post-media campaign KAP (knowledge, attitudes and practices) survey that is to be conducted in mid-2004.³

Intermediate Result 4: Policy environment and financing for provision of services improved

The expanded delivery of health services has been hampered by unrealistic or outdated legal and regulatory barriers and the absence of sufficient supportive policies or guidelines at the national and local levels. USAID/P will work closely with national and local policy makers to review existing policies and regulations and determine how they can be modified or strengthened. The objective is to help government formulate and enunciate a realistic national contraceptive self-reliance policy, along with the appropriate implementing strategies. Activities in this IR will: (1) ensure long-term contraceptive self-reliance, (2) improve service provision, and (3) ensure sustainable financing for information, services and products that facilitate the delivery of FP/MCH/TB/HIV-AIDS services.

Illustrative Indicators: CPR for effective methods; % of FP users obtaining supplies and services from private sector sources; % of HIV sentinel sites with less than 3% HIV seroprevalence rate among high risk groups; coverage rates for vitamin A supplementation; % of participating units achieving at least 85% treatment success rates for tuberculosis.

4. Management of Productive, Life-Sustaining Natural Resources Strengthened (SO 4)

Strategic Objective 4 will help address four key challenges in the energy and environment sectors: competitiveness, corruption, conflict and conservation. An inefficient energy sector, severe environmental degradation and heavily polluted air and water, among other factors, undermine the competitiveness of the Philippine economy and quality of life of

An inefficient energy sector, severe environmental degradation and heavily polluted air and water, among other factors, undermine the competitiveness of the Philippine economy and quality of life of the Filipino people.

the Filipino people. Poor governance and corruption often play a role and the conflict that can ensue further marginalizes the poor rural and minority populations most dependent on natural resources.

Background

Today 5,000 remote communities—mostly in Mindanao and many in conflict affected areas—remain without electricity, a basic tool of enterprise, communication and social development. The extraordinary natural resource base of Mindanao could make a very significant contribution to the food and fiber needs of the nation were it not for continuing conflict and weak governance that pose significant obstacles to its sustainable development. At the national level, a significant of the government's debt service is due to the inefficient, state-run National Power Corporation. In four growing Philippine cities alone, poor air quality, mostly from uncontrolled vehicle emissions, resulted in an estimated \$430 million in health care costs alone in 2001, as well as an untold productivity loss. Such conditions, and their undesirable impacts on rural and urban communities alike, serve as a drag on the country's competitiveness and, thus, economic growth.

With the second highest commercial/industrial electricity costs in Asia, the Philippines falls far behind competitors for investment -- Vietnam, Thailand and Malaysia -- whose rates are one third as high. In 2001, after seven years of effort (including USAID assistance) the Philippines passed the Electric Power Industry Reform Act (EPIRA), one of the most comprehensive, innovative and path-breaking efforts in Asia. Successful privatization of the industry – in both power generation and transmission - will lower costs and avert serious power shortages over the rest of the decade, but requires consistent political will, good governance and technical expertise. Dependence upon imported coal and oil can be reduced by attracting additional private sector investment in the country's extensive natural gas reserves as well as wind, solar, hydro and other renewables.

Over the last century, the Philippines lost 80% of its forests; today it has the highest deforestation rate in Southeast Asia. More than 40% percent of the country's industrial roundwood comes from undocumented sources, presumably illegal. Exploitation of the remaining forests defeats conservation efforts and marginalizes rural communities. Similarly, traditional fishing grounds are 20-40% over-fished, and experts warn that some may crash in the next ten years. Over-fishing of near-shore fishing grounds, as well as illegal and destructive fishing not only threatens the source of approximately 50% of the country's dietary protein, but imposes costly externalities on other sectors. In 2002, for example, dynamite fishing damaged an underwater cable, and repairs cost the National Power Corporation \$5 million. And as the population grows at an alarming rate, this pressure on the country's natural resources will only grow stronger.

Conservation is not only critical to the Philippines but is of global concern. The Philippines is one of the world's top biodiversity hotspots—due not only to its mega-biodiversity, much of it endemic, but also to the serious threat from habitat loss.

Unregulated access and weak governance allows unscrupulous resource users and criminal elements to severely manipulate the extraction of natural resources. Community members and government employees committed to enforcing the law are consistently harassed and threatened, sometimes losing their lives.

The SO4 program will concentrate on three main result areas:

- Energy Sector Performance
- Environmental Governance
- Urban Environmental Management

By improving the transparency, accountability and participation in governance in the environment and energy sectors, SO4 will help improve conservation and environmental quality, reduce conflict and corruption and improve the competitiveness of the Philippine economy—addressing poverty as well as environmental health conditions. At the same time, SO4 will continue to contribute to achievement of four Presidential Initiatives: Water for the Poor; the Clean Energy Initiative; the Initiative Against Illegal Logging; and Global Climate Change.

The program will continue its focus on strategic interventions and priority geographic areas. For example, the EcoGovernance Program focuses on the biologically significant areas of Southern Mindanao, Central Visayas and Northern Luzon. Terrestrial and marine areas were identified by a landmark biodiversity conservation priority-setting exercise supported by USAID and other donors in 2002. The program will also work with local governments in coastal areas, where a vast majority of the Filipino people live and which are economically important to tourism as well as fisheries production. The program will also prioritize the Sulu-Sulawesi Marine Ecosystem, arguably the world's epicenter of marine biodiversity.

In the urban sector, activities will continue to emphasize governance and institutional capacity rather than point-source reduction. For example, the Program recently supported regional investors' fora and training of a core group of government accreditors that resulted in private sector investment in more than 320 private emissions testing centers nationwide. The Program will continue to support establishment of a certificate course at the University of the Philippines which develops local capacity to manage hazardous waste. In the energy sector, the program will continue to support national-level priorities through selected, strategic interventions designed for maximum impact. For example, in 2001, the Program supported production of a Wind Energy Resource Atlas, which recently formed the basis for private sector investment in the country's first wind farm, expected to generate 25 megawatts.

Implementation approaches will continue to emphasize direct support for technical assistance, training and policy analysis as well as alliances with the private sector as effective means of leveraging resources and impact on development objectives. As the case of EPIRA passage demonstrates, some priorities require long-term, consistent commitment and support. Yet as the establishment of private emissions testing centers

also demonstrates, strategic short-term interventions can have real impact. The Program will continue to evaluate the level of commitment and investment in light of available resources and appropriate donor roles, prioritizing sustainability and developing exit strategies where a level of strategic impact has been achieved.

Key partners include the private sector as well as the Department of Energy; the Department of Environment and Natural Resources; and the Department of Agriculture's Bureau of Fisheries and Aquatic Resources; Department of Trade and Industry; Department of Transportation and Communications; Department of Interior and Local Government; LGUs; community organizations, and other stakeholders.

Intermediate Result 1: Improving Energy Sector Performance

The Mission will intensify support for the GRP goal of bringing more reliable, affordable and cleaner energy to its citizens. Activities will focus on three results areas:

- Remote barangays electrified with renewable energy
- Improved governance of the power sector
- Expanded use of natural gas

USAID's public-private alliance in renewable energy, which brings renewable energy to remote communities of former rebel combatants, may be expanded to other selected conflict afflicted areas nationwide where alienation and poverty are prevalent, in accordance with guidance from the planned, in-depth Conflict Assessment. A target of 6,000 households of former rebel combatants will be provided with renewable energy (solar and microhydro) under the new strategy, bringing the total to 11,000 households in the ARMM and conflict affected areas under the current and new strategies. Activities will expand to explore electricity use for potable water supply, irrigation, telecommunications and post harvest activities.

Since the passage of EPIRA, USAID has shifted assistance from consultation on power sector reform legislation to support for implementation of the law, particularly strengthening the new Energy Regulatory Commission (ERC). The ERC is essential to ensuring true competition, a level playing field, and preventing market abuse. Intensified USAID support under the new strategy will focus on implementation of the EPIRA, including the transparent privatization of the transmission and generation assets of the National Power Corporation and establishment of market incentives to attract new investment in power generation.

The government's recently released Philippine Energy Plan outlines the need for PhP1.416 trillion (\$25.75 billion) over the next ten years, prioritizing private sector investment and development of clean and renewable energy sources such as geothermal, natural gas, hydro and wind resources. USAID will also help position the Philippines to take advantage of the dawning Hydrogen Economy by developing cost-effective, abundant renewable energy resources. To promote the utilization of the country's plentiful, domestic natural gas reserves, USAID will continue to support the PDOE in

formulating policies that will encourage greater private sector investment while protecting consumers. Working with the U.S. Department of Energy and other partners, USAID will provide assistance in resource assessments and development as well as analysis of the nationwide market for natural gas for power generation, industrial, commercial, and/or residential use and for transport. Emphasis will be on developing domestic energy resources that contribute to both energy-self-sufficiency and security, while recognizing the possibility of LNG imports as only an interim measure during the long gestation period of exploration and production. In addition, USAID will continue initial policy analysis that compared cost-effectiveness of different air quality improvement options for the benefit of decision-makers.

Intermediate Result 2: Improving Environmental Governance

USAID will continue to focus on this intermediate result area with activities such as helping LGUs and local communities improve their management of forests and coastal resources and introducing new activities and partnerships in areas of particular need, including the enforcement of environmental laws and mitigation of conflict over natural resources. Efforts to strengthen conservation and reduce corruption and conflict will be designed to reduce over-fishing and illegal and destructive fishing, reduce illegal logging and conversion of natural forests, and improve management of water resources. This strategy will see a shift from planning to implementation by local governments and key stakeholders, and a newly introduced Environmental Governance Index will reflect improvements in governance at the local level.

New activities will focus on improving the management of fish stocks and other resources such as coral reefs and mangroves which support them. Improved policies, public awareness and political commitment will work toward sustainable yield of fish stocks by helping address the over-capacity of commercial and municipal fishing fleets. The program will also support local governments to establish and operate marine sanctuaries to help depleted fish populations regenerate, and strengthen enforcement action to reduce the use of cyanide, dynamite and other destructive fishing practices.

Continuing activities will improve the capacity of local and national institutions to shift toward co-management of forests by local governments and community organizations, and recognize multiple uses and services of forests, such as water supply. USAID will promote mechanisms to maintain and improve ecological functions of watersheds—such as the new bilateral foundation established under the U.S. Tropical Forest Conservation Act, user fees, and other market based instruments. USAID will also develop private-public partnerships to address timber and non-timber forest products/minor forest products while at the same time conserving biological diversity.

Intermediate Result 3: Improving Urban Environmental Management

Building on the initiatives from the previous strategy, USAID will consolidate its focus on urban environmental management, particularly air quality and waste management. Activities will reduce vehicle emissions and improve management of municipal and industrial wastes, as well as hazardous waste.

USAID will continue to support the implementation of a universal, nationwide vehicle emissions inspection system while working closely with the private sector to facilitate adoption of cleaner fuels for wider use and win-win solutions to lowering diesel emissions.

Assistance will target capacity-building for LGUs to improve solid waste management and increase recycling rates. New activities will also focus on strengthening the capacity of LGUs to provide sustainable financing for these projects. Water quality management by LGUs will be improved by promoting affordable, appropriate technology solutions for managing municipal/household wastewater. USAID/P activities will help build the capacity of the Philippine public and private sector to manage and dispose of hazardous waste, especially hospital and medical waste.

Cross-Sectoral Linkages: An efficient, effective and progressive energy sector is essential to private sector investment and sustained, equitable economic growth. With \$6.5 billion of U.S. investment in the Philippine energy sector to date, the U.S. private sector has a significant interest in the successful implementation of EPIRA and a potentially key role to play in helping the Philippines meet energy demand and achieve its economic growth potential in the coming years. At the same time, over-exploitation, corruption and other forms of poor governance threaten the near- and long-term productivity of forests, fisheries and other natural resources. Proper incentives as well as sound governance and a level playing field—in any sector—are essential to a sound economy, and the program will continue to support strategic interventions toward these results.

The nature of threats to natural resources and environmental quality and environmental health from rapid population growth and migration, particularly when coupled with weak governance and unregulated access, are complex, and have a clear and direct impact on economic growth and conflict. With more than 60% of the population living along the Philippine coast and with continuing migration to these areas, competition over increasingly scarce resource is high and arguably has the greatest impact on the poor and marginalized. During this strategy period, programs will identify and attempt to positively influence population-environment linkages at the field implementation level as well as the policy-level. Interventions prioritizing transparent, participatory governance encourage systems for mitigating conflict over natural resources, and for enforcing accountability.

Program activities in the Energy and Forestry sectors as well as vehicle emissions will continue contributing to reduction of global climate change, particularly Philippine emissions, and the ability of the Philippines to address the impact of climate change. Programs in these sectors, as well, can help reduce the likelihood of natural disasters, such as landslides which have recently been linked to deforestation and more extreme weather patterns, as well as unwise investment in development and construction.

Illustrative Indicators: Hectares of forest cover maintained; hectares of coastal waters under improved management; percent of waste stream diverted from waste facilities through resource recovery; households provided with potable water; percent reduction of PM₁₀ in Metro Manila air; percent share of cleaner or renewable energy in the power mix; and number of households electrified through renewable energy.

5. Increased Access to Quality Education and Livelihood Skills in Selected Areas, Particularly Those Most Affected by Poverty and Conflict (SO11)

A new Strategic Objective (SO11) for education was approved by USAID/Washington in September of 2003, just prior to President Bush's October visit to the Philippines. The new SO was approved to run through September 30, 2009. As required by USAID/Washington with approval of the new Education SO, the original SO document has been revised to address two additional issues, and is attached as an Annex A to this Strategy. The additional issues that the Education SO now covers are: linkages of the Education SO to the other SOs, and the impact of the reduction in funding from the originally requested level of \$50 million over five years.

VI. Implementation Approaches

Reliance on Implementing Partners. USAID/Philippines' program will continue to be implemented in coordination with and through partners in the GRP, including at the local government level; the NGO sector; the private sector; and with other USG agencies at post. These partners have assisted in formulating the strategy, and all USAID/Philippines' programs will continue to be implemented with "shared ownership" by counterparts. The National Commission on the Role of Filipino Women and Gender and Development (GAD) focal points of GRP agencies will be tapped through collaboration to support the integration of gender issues in project implementation and evaluation.

In accordance with the memoranda of understanding (MOU) entered into between the GRP National Economic and Development Authority (NEDA) and USAID for each of the SO programs, NEDA and USAID have agreed at the program level to establish a mechanism to ensure that the program reflects the priority development needs and opportunities of the Philippines. Annual High-level Bilateral Consultations are conducted to review overall program and/or policy directions, update on relevant developments affecting program implementation, and agree on new areas or activities eligible for funding including the forward program. Semestral Results Review of the program are likewise carried out, involving USAID, NEDA, the concerned GRP and non-GRP partner agencies and assistance implementers, to review the progress of ongoing activities and address any implementation concerns.

For each activity conducted under the MOUs, USAID seeks to enter into an implementation or other agreement with a GRP partner agency by which the GRP partner agency endorses the activity to be carried out. That agreement may provide for implementation arrangements and GRP counterpart contributions from the GRP partner agency.

The implementation arrangements provide for shared management and oversight through management committees typically chaired or co-chaired by a representative of the GRP implementing agency. For example, the Mindanao Economic Development Council chairs the Steering Committees for the Growth with Equity in Mindanao Program, the Livelihood Enhancement and Peace Program, and the Microenterprise Access to Banking Services Program; the Department of Finance chairs the Steering Committee of the Economic Growth Technical Assistance Program; the Department of Health chairs the Technical Advisory Committees of the Local Enhancement and Development for Health Program and the Infectious Diseases Surveillance and Control Project; the Department of Environment and Natural Resources co-chairs with USAID the Executive Committees for the Environmental Governance Program and the Coastal Resources Management Program; the Bureau of Fisheries and Aquatic Resources, NEDA and USAID co-chair the Fisheries

Improved for Sustainable Harvest (FISH) Project Consultative Group; the Department of Energy and USAID co-chair the Steering Committee of the Alliance for Mindanao Off-Grid Renewable Energy (AMORE) Program; and the Department of Trade and Industry and USAID co-chair the Steering Committee of the Vehicle Emission Reduction Program

With respect to the nature of USAID programs and staffing, given that many of the programs are technical assistance and/or capacity-building in nature, it is appropriate to engage expert consultants to support such activities. However, as USAID/Philippines is extraordinarily fortunate to have access to such a talented pool of local expertise, USAID will continue to hire mostly local staff to implement programs. For example, of the approximately 400 grantee and contractor staff working in Mindanao, all but six are Filipino. USAID also has programs that provide significant quantities of physical deliverables to beneficiaries, such as the Growth with Equity in Mindanao Program-2, the Livelihood Enhancement and Peace Program, and the Alliance for Mindanao Off-Grid Renewable Energy Program.

Partnership with the U.S. Mission Country Team. USAID works in close coordination with other elements of the U.S. Mission Country Team to ensure that its strategy and activities support the Mission Performance Plan. More than this, however, USAID actively engages, as implementing partners, other agencies at post that can contribute to the achievement of our mutual objectives. For example, U.S. Peace Corps (PC) Volunteers are supporting English Language Teacher Training for teachers in Mindanao, in coordination with State Department English language experts made available through the Public Affairs Section (PAS); PAS and the Peace Corps (PC) representatives are members of the USAID/P's extended Education SO team. USAID's Economic Governance team will continue its close working relationship with other members of the Country Team, including Treasury and Justice. USAID participates in the USG's Mutual Prosperity Team.

Public-Private Partnerships. USAID/Philippines recognizes that partnerships with the private sector encourage innovative approaches and effective problem-solving, leading to substantially greater development impact. USAID also appreciates the importance of such partnerships for leveraging scarce resources, or resources unique to the private sector. All USAID/P SOs have been or will be designed to deliberately seek out and take advantage of opportunities for productive alliances with the private sector (both domestic and international).

USAID/P has also been a leader in "mainstreaming" the Agency's Global Development Alliance (GDA) as a tool for delivering assistance across our portfolio. As examples: USAID is bringing renewable energy-powered electricity to remote communities through a partnership with Mirant Corporation; our partnership with the Makati Business Club and various corporations is helping to bring computers and the Internet to schools in Mindanao and the ARMM. USAID supports the Philippine

Corn Alliance, in partnership with Monsanto, to improve the productivity of 5,000 low-income small farmers. USAID partnered with the GRP Bureau of Customs and an association of freight forwarders to enable the BOC to establish computerized approval of exports, already speeding up transactions for local semi-conductor firms. For the first time ever, the Development Credit Authority (DCA) is supporting a program in the health sector to guarantee loans for midwives to invest in privately-owned clinics.

The new Education Objective (SO11) is developing partnerships with several private sector organizations in areas ranging from distance learning via radio/satellite communication to programs working with out-of-school youth. In collaboration with GEM, a group associated with the Makati Business Club has already signed an MOU to provide computers for up to 50 schools, while other private sector partners will provide training for teachers and students. The schools themselves provide a classroom, electricity, and teaching staff and USAID the initial internet connectivity, networking, monitoring and training. A potential partnership to supply English-language books to schools is currently in the works.

Gender and Development in the Philippines. Despite Filipina women being better educated than most of their Asian sisters, and despite their higher representation in professional and technical positions and equal access to education, the Philippines ranks relatively low in terms of income equality in Asia (37 vs. 63 percent for males). The problem lies not in overt exclusion from political power, education, and paid employment, but rather in low earnings (especially for disadvantaged women) and lack of access to those services that affect their earnings and standard of living. Gender and development will receive continued emphasis in the new strategy. USAID/P's approach to gender is to integrate gender concerns into those programs that increase incomes, provide access to health and education services, and enable ordinary women to participate in issues directly affecting them. Particular emphasis will be placed on women's economic participation that helps to ensure improved access of women entrepreneurs to credit and capital, markets, technologies, training and increased control over these resources. Women's microfinance initiatives and capacity-building for financial management will be supported as economic opportunities are expanded in conflict-affected areas.

The goal is to create an 'opportunity environment' for greater participation of women, including Muslim and other ethnic women, in areas such as the management of the environment, coastal, water, forest and energy resources; local governance by encouraging women's participation in policy-making and in building women's coalitions; in economic development through gender equality in economic participation and access to resources, benefits and opportunities; in reducing conflict in Mindanao and other conflict-affected areas; in helping improve the capacity of the ARMM to deliver basic social services such as health and education; and in promoting women's health and reproductive rights, and greater male participation in

family planning. USAID/Philippines' Women in Development Officer will work with all SO teams to strengthen our gender support to improve delivery of our development assistance. In line with the recommendations of the Gender Assessment of the Strategy, USAID/P will develop a Gender Plan of Action to support the mainstreaming and integration of gender concerns in implementing its strategic objectives.

Annex A

**Revised Strategic Objective 11
Increased Access to Quality Education and
Livelihood Skills in Selected Areas**

USAID/Philippines Strategy for 2005-2009

Abbreviated Version

October 1, 2004

Strategic Objective 11
Increased Access to Quality Education and
Livelihood Skills in Selected Areas

I. Background

USAID proposes to design and implement a comprehensive but targeted educational program in the Philippines, with a specific focus on the ARMM but also with selected policy reform components at the national and regional level. USAID recognizes that it is not feasible to undertake a comprehensive “fix” of the Philippine education sector given the scope and magnitude of the problems, but instead seeks to address some of the most critical educational issues where USAID can make a sustainable and important difference, and in selected geographic areas where need is greatest. In October 2003, USAID launched a new six-year Strategic Objective: “Increased Access to Quality Education and Livelihood Skills in Selected Areas.” The program aims to address the political, economic, and social marginalization of Muslim and other impoverished and conflict-affected communities in order to build peace and economic security and invest in the Philippines human capital.

USAID will build on and expand education activities already ongoing in Mindanao under the Growth with Equity in Mindanao (GEM)-2 program, managed under USAID’s Strategic Objective “Prospects for Peace in Mindanao Strengthened.” Initiated in FY 2003, the focus of the GEM-2 education program is on reducing the differences between education opportunities in Mindanao, especially the ARMM and other conflict-affected areas, and the rest of the nation. The scope of activities includes: improving school administration in the ARMM; improving linkages between schools and the business community and parent groups; reducing inappropriate practices in procurement, and teacher hiring and promotion; strengthening English language training; and improving internet access for ARMM students. There have already been encouraging results, such as the installation of computers and internet connectivity in 16 high schools in Mindanao, a preliminary design of a distance-learning English language program (via radio or cassette), and the establishment of a Congressional internship for young Muslim professionals that has already brought ten men and women from the ARMM to Manila.

USAID will implement this new effort with significant collaboration anticipated with the U.S. Embassy Public Affairs Section (PAS) and U.S. Peace Corps (PC).

Consistent with

USAID’s Global Development Alliance initiatives, public-private sector alliances are also expected to play an important role. As in all its programs and activities, USAID will coordinate closely with the Government of the Philippines (GRP). President Arroyo’s administration has emphasized the importance of education. The revised Medium-Term Philippine Development Plan (MTPDP) (2001-2004) identifies

poverty reduction as the country's primary development objective. The MTPDP features comprehensive human development and protecting the vulnerable as one of its four primary strategies.⁴ The GRP also seeks to form government-private sector partnerships to provide and finance education and training. The GRP also recognizes the need for reforms in schools management, continuing review of incentive structures, and the adoption of curricular reforms in reading, English, math and science. The MTPDP stresses the need for investments in education and training, and especially in reaching out-of-school youth and upgrading higher education institutions. Thus, the goals of USAID's new education program for "Increased Access to Quality Education and Livelihood Skills in Selected Areas" are consistent with the goals of the GRP, as expressed in the Medium-Term Development Plan.

II. Activities

USAID will focus on four key areas: 1) Access to community-based learning opportunities (especially in school-less and conflict-affected areas) increased; 2) improving teaching capacity in Reading, English, Math, and Science; 3) promoting the reintegration of out-of-school youth into the peaceful, productive economy; and 4) reforming education policy (e.g., fighting corruption, especially in hiring and procurement).

A. Intermediate Result 1: Access to local-level learning opportunities increased and/or improved in school-less communities and selected other disadvantaged communities, particularly in conflict-affected areas.

USAID plans to increase access to local-level learning opportunities in school-less communities and selected other disadvantaged communities, particularly in conflict-affected areas, both by establishing alternative learning options and by strengthening formal schooling at the community level. Activities may include:

- Improving the functioning of Local School Boards in for better planning, implementation, and monitoring of basic education activities;
- Supporting local-level NGOs and PTAs to actively advocate for quality basic education;
- Assisting communities in identifying needs for existing schools, such as providing potable water, desks, chairs, toilets, and where possible, electricity;
- Promoting decision-making regarding location of schools, and the hiring, firing and payment of teachers, based on relevant and more transparent (less political) criteria; and

- Establishing non-formal, community learning centers to provide livelihood skills training, possibly through interactive radio instruction or computer-assisted instruction.

B. Intermediate Result 2: Improved Quality of Instruction for Reading, English, Math, and Science

USAID aims to improve the quality of reading, English, math, and science instruction, particularly in Mindanao and the ARMM. Activities may include:

- Building the capacity of selected Teacher Education Institutions (TEIs) to provide training for NGO service providers, division and district personnel involved in teacher training, teachers, and non-formal facilitators. USAID plans to build the capacity to develop teaching materials and use distance learning techniques to improve instructional delivery in Reading, Math, Science, English, Civic Responsibility, and life and livelihood skills;
- Developing distance learning materials, methodologies, and delivery systems (including radio) for use in classroom instruction, especially for teaching English;
- Strengthening selected divisions and districts to provide teacher training for 30,000 teachers on a recurring basis who will in turn teach an estimated 3 million children; and
- Working with *madaris* to encourage them to take advantage of opportunities to improve teacher training and curricula for secular subjects, such as Reading, English, Math and Science.

This program will build upon the work of a Participatory Agency Service Agreement (PASA) that USAID signed in September 2003 with the U.S. Peace Corps for a “Pilot Education Assistance Program.” This activity was funded under the Strategic Objective “Prospects for Peace in Mindanao Strengthened.” The Peace Corps program, which will benefit conflict-affected areas in Mindanao, is designed to enhance the capacity of Mindanao’s public school teachers, instructional staff, and student teachers. The program will provide training for them in English education, Internet and Communication Technologies (ICT), and content-based instruction methodologies and techniques in Math, Science, Health and Environment to enhance their lesson-planning and classroom skills. Due to security issues, the location of training(s) at present is expected to be in Cebu. Expected outputs of the program include production and reproduction of instructional materials both for teachers and students; and enhanced capacity and skills of teachers in the above subject matter areas.

C. Intermediate Result 3: Programs and facilities for reintegrating out-of-school youth in conflict-affected areas of Mindanao are established and operating

This component responds to the urgent need to address the crime, violence and political disaffection associated with the number of unemployed youth in Mindanao in general, and the ARMM in particular. USAID will focus on both educational and economic reintegration. Activities may include:

- Establishing an information referral and counseling service for out-of-school youth to direct clients to education/skills training and employment opportunities;
- Setting up youth training and business development programs to provide business and skills training, tool kits, and business planning assistance for out-of-school youth; and
- Initiating a private-sector funded Provincial Training and Employment Fund to function as a demand-driven, flexible financing mechanism to channel resources to employment generation.

D. Intermediate Result 4: Improved education sector policies and strengthened capacity for implementing them

USAID aims to improve policies, particularly at the national level, that affect the ability of provincial and local-level governments and communities to deliver quality basic education services, both formal and non-formal. Activities may include:

- Supporting the development of teacher incentives for reducing absenteeism and promoting supply in remote areas, and establishing performance-based selection and promotion for teachers;
- Initiating anti-corruption and policy reform initiatives focused on hiring, management, and procurement practices;
- Strengthening the capacity of the Department of Education's Bureau of Non-Formal Education (BFE) to manage innovative alternative learning approaches using outsourcing and public-private partnerships;
- Strengthening the ARMM Department of Education's capacity for strategic planning, budgeting, policy development and implementation, and program/project management.
- Promoting the promulgation of clear standards for school accreditation, including for *madaris*;
- Assisting the GRP and ARMM Departments of Education to establish a voluntary accreditation scheme for *madaris*, similar to accreditation schemes used for Christian schools, that would re-integrate *madaris* into the

mainstream education system with the inclusion of secular subjects, including Reading, Math, Science, and English (this would also give teachers access to quality improvement activities and programs); and

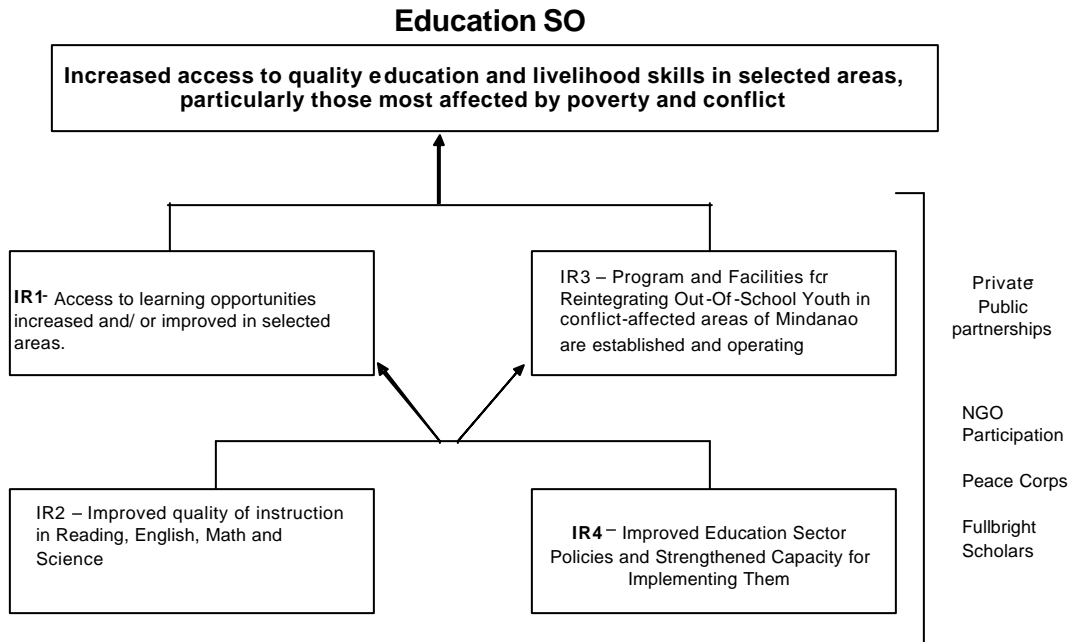
- Promoting the adoption by madaris of the reconciliatory curriculum, which has been developed and approved by the Bureau of Madari education in the ARMM.

III. Results to be Achieved

By targeting assistance where the need is greatest (initially conflict-affected areas of Mindanao) and addressing key policy issues, USAID's program will provide tangible benefits that may, with sufficient resources and commitment during the next six years, (a) help reinvigorate the Philippines' human capital, (b) promote healing from conflict-associated damage, and (c) ultimately support sustainable peace in the Philippines. Specific results to be achieved by the end of the six-year program include:

- An increase in the percentage of elementary school students who remain in school in selected regions;
- An increase in student participation rate in secondary schools in selected regions;
- Student test scores improved;
- Livelihood graduates have increased, sustainable livelihood/incomes;
- A higher percentage of teachers who pass the National Accreditation Examinations;
- More English language classes offered, with concurrent increases in English language fluency;
- Class sizes reduced in selected regions; and
- Expansion of non-formal education opportunities, using innovative alternative learning approaches and relying on outsourcing and public-private partnerships, developed and supervised by the Department of Education's Bureau of Non-Formal Education (BFE).

IV. Results Framework



Annex B

Location Map of USAID Activities in Mindanao

