

**NATIONAL INDICATIVE PROGRAMME
(2007 – 2010)**

PHILIPPINES

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Programming Service	:	RELEX H.5
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EXECUTIVE SUMMARY OF CSP AND NIP

The Philippines is ranked as a lower Middle Income Country, but is characterised **by an extreme inequality of wealth distribution**. While the Philippines is not a poor country, it is nevertheless a country with a lot of poor people: about 30 % of its total population, **some 30 million people, live below the National Poverty Line**. The country has not achieved sufficient economic progress over the past decades to substantially reduce poverty, due mainly to high population growth, lack of employment creation, rampant corruption, feudal politics and insurgencies, one communist-inspired, the other triggered by Islamic separatism. Combined with the lack of a national policy to slow its 2.3% annual population growth, its **ability to achieve the Millennium Development Goals is seriously compromised**.

The Philippines is economically lagging behind the rest of the region and has been **facing a severe fiscal crisis**, with the highest deficit in the region reaching 5 % of GDP. The Philippines is witnessing an **erosion of confidence in elected government** and political institutions, coupled with a feeling of impotence to achieve substantial change towards a more equitable distribution of wealth. **Lack of good governance** and rampant corruption, threaten sustained growth and are breeding vicious circles of poverty and underdevelopment. In addition, the Philippines is **plagued by two main insurgencies**, one communist-inspired, widespread in most rural areas, the other inspired by Muslim fundamentalists who have been seeking independence, although more recently they are pursuing a path towards a high degree of autonomy. **Poverty** not only remains **the underlying reason for both insurgencies**, but is also an ideal **breeding ground for terrorist cells**, some linked to international terrorism.

The main challenges for the Philippines are to:

- **Reduce poverty** through stronger job creation and better **access to social services**, for the poor; and
- A more equitable wealth distribution through **economic, social and political reforms**.

In this context, the overarching objective of the Community support to the Philippines is the sustainable reduction of poverty, pursued through the provision of assistance to equitable access to social services, notably health and education, by a sector-wide approach. A focused range of actions funded through thematic and regional budget lines and other programmes will complement this.

EC cooperation for the period 2007-2013 will focus on:

- Helping the Philippines **meet its MDGs** by supporting a more equitable **access to quality basic social services** through budget support and sector-wide approaches (with a focus on health under the first NIP 2007-2010);
- Other actions and themes helping the Philippines in its economic, social and political **reform processes**, by providing support to **boost trade and investment flows**, while paying due attention to the social dimension of globalisation, to **restore peace and security**, especially in Mindanao, and to deepen dialogue with and among all sectors of society.

The budget of the first NIP (2007-10) is based on the Commission proposal for the Financial Perspectives (2007-13) and the internal allocation within Asia.

The financial allocation for the 2007-2010 period is €60 million.

The **indicative funding breakdown** into focal sector and non-focal themes is as follows:

- Focal sector: access to quality basic social services – health 67-76%
- Other actions and themes :
 - Trade related assistance 11-13%
 - Small Projects Facility 11-13%
 - Multi-donor Trust Fund 0--9%¹

I. Focal Sector: Support to the delivery of basic social services - health

1.1 Strategy, context and justification (also see Annex on Health)

Support to delivery of basic social services comprises two sub-sectors: Access to basic services in health and access to basic services in education. In view of the limited EC resources available for the Philippines and in order to provide continuity in the sector programme on health, support to the delivery of basic health services will be the focus under the first NIP (2007-2010). Support to basic services in education will be mainstreamed in the health programme and taken up in the Small Project Facility, too. For the second NIP (2011-2013), support to a fully fledged programme in education may be considered, depending on the outcome of a Mid-term review of the CSP/NIP 2007-2010.

Progress in the health status in the Philippines slowed in the 1990's leaving the country behind its Southeast Asian neighbours. Overall inequity and inefficiency of the Philippines health system, results partly from the unprepared devolution of responsibilities for health care provision to local governments (Local Government Code, 1991), and translates in a disconnection between the various levels of the health system. The fiscal instability in the country threatens effective implementation of the Health Sector Reform Agenda.

A comprehensive programme of health sector reform started in 1999 (HSRA).² Recent reform initiatives include the broadening of the original HSRA concept in order to cover cross-cutting issues (e.g. finance management, procurement, human resources, information systems) and the development of a Sector Development Approach for Health³ (SDAH) aiming at raising the quality and the efficiency of investments for health through the alignment of resources with priorities, the government-led coordination of development partners and aid harmonization. These

¹ The EC contribution to the MTF is a carry over from the NIP 2005-2006. Should support to the MTF still be committed in 2006, the funds foreseen for this action in the NIP 2007-2010 would revert to the focal sector..

² The HSRA is composed of five complementary elements: (i)Health financing reform (increased coverage of the National Health Insurance Program, especially for the poor); (ii)Public health reform (to secure funding for priority public health programs and to restore the technical leadership of DOH); (iii)Local health systems reform (to restore the integrity of the district health system); (iv) Hospital reform (to enhance hospital efficiency and service quality, through system development and granting of fiscal and managerial autonomy) and (v)Regulatory reform (to ensure the quality and reduce the costs of health products).

³ The Philippine equivalent of SWAp.

developments are conducive to a more cohesive implementation of sector reforms and to a fully fledged SWAp.

Implementation of the reform takes time and requires the sustained engagement of development partners. The results of the government's health sector reform implementation programme supported by the EC under its NIP 2005-2006 will need to be consolidated and rolled out, to spread and sustain the benefits throughout the country. Therefore, and in line with its commitment to poverty reduction and the attainment of MDGs, the EC will provide further support to the health sector.

EC support will capitalize on progress achieved during the government's Phase 1 reform implementation programme; and build upon the reform implementation experience gained by the EC, thereby providing for strategic continuity.

Consideration will also be given to maximizing synergies between EC support to health and support to the delivery of other social services, including education, as well as to extension of social protection coverage where possible. With regard to education, it is of note that the Department of Education (DepEd) is also evolving toward a SWAp and government intends to develop a Convergence Strategy, in line with a concept which was initially developed by the Ramos Administration⁴.

1.2 Actions

The exact nature and content of the intervention will be determined in the light of the evolution of the government's sector programme.

1.2.1. Objectives

Overall objective: To improve the health status of the population especially the poor, as a contribution to poverty reduction and the attainment of health-related MDGs.

The project purpose will be to increase the access to and utilisation of equitable and efficient, quality health services and to consolidate and further develop health sector reform achievements.

1.2.2. Expected results

Results are expected in all areas of the expanded HSRA concept i.e. Local Health Systems Development; Health Financing; Public Health; Hospital reforms; Regulation; health sector governance; human resource strategies; monitoring and evaluation. Further refinement will be undertaken in the identification phase.

1.2.3. Activities

Following the government's strategy of phased reform implementation⁵ and based on previous reform achievements: a) Consolidation and further development of reform achievements in Phase 1 provinces; b) Replication of reform strategies in Phase 2 provinces; c) Further development of DOH's core functions, especially in the regulatory sphere; d) Assistance to the Philippine Health Insurance Corporation. e) Possibly specific support to provinces in Mindanao, including ARMM.

⁴ The convergence strategy aims at coordinated and simultaneous development of critical sectors - primarily health and education- at LGU level.

⁵ Phased introduction of provinces into the government programme. Phased introduction of reforms at LGU level with the implementation of a *Core LGU Support Package* in less advanced provinces, and a *Supplementary LGU Support Package* in provinces where the core package is functioning.

1.2.4. Implementation

EC support will take the form of a contribution to the Philippine Health Sector Programme, preferably through budgetary support or pooled funding or project based support.⁶ The EC will provide international and local TA as required.

1.2.5. Cross-cutting issues

The EC intervention is expected to have a significant impact on several cross-cutting issues: a) Indigenous people: poverty mapping strategies will specifically target indigenous people; b) The development of local health systems explicitly emphasizes the involvement of communities and civil society organizations in the conduct of health affairs. The intervention will also aim at supporting the wider public finance management reforms of the government, resulting in enhanced transparency and accountability (e.g. drug procurement); c) Gender: maternal health services constitute a central element of the government's primary health care strategy. Gender-specific issues will be mainstreamed; d) Migration: The effects of continuing brain drain in the health sector will need to be addressed through appropriate measure. WHO is providing support to the DOH for the design of a human resource Master Plan, which will include a situation analysis and a review of strategic options to address HR issues including that of brain drain; e) Environment: Environmental issues such as access to safe water, treatment of medical wastes, awareness of the impact of certain livelihood activities (e.g. small-scale mining), will also be mainstreamed, where appropriate; f) Governance: enhanced accountability and transparency of public finance management and procurement will be targeted.

1.2.6. Risks and conditions

The following risks have been identified:

a) The local elections in 2007 could affect the government's Phase 1 reform implementation programme at LGU level; b) The presidential elections in 2010 could bring changes in the national health policy, especially with respect to the sectoral approach and the HSRA; c) The fiscal crisis may result in austerity measures and cuts in the DOH budget. d) Renewed armed conflict in Mindanao.

The EC Delegation jointly with other donors will foster dialogue with the government in order to minimize these risks. Results of Phase 1 should enhance the pursuit of sectoral reforms.

The EC intervention will be subject to three pre-conditions:

a) DOH budget and priorities in line with its roles and functions, following the review of the latter and along with regular Effectiveness and Efficiency Reviews; b) Conditions of a full fledged SWAp in place; c) Good progress made in public expenditure finance management.

1.2.7. Main indicators

The indicators will differentiate Phase 1 provinces and new provinces covered by the government's reform programme, and may include the following: a) Increased utilization of health services by the poor; extensions in social protection coverage; b) Increased drug availability and affordability; c) Sustained enrollment in the

⁶ This could take place in the framework of up to 2 separate Commission Financing Proposals.

national SHI programme and reduced household out-of-pocket payments for health; d) Reduction of the under-five mortality rate and the infant mortality rate; e) Number of donors explicitly participating in the government's sector programme; f) DOH performance (for example measured through the government's Organisational Performance Indicator System). Indicators will relate to MDGs and MTPDP and where relevant/possible be disaggregated by gender and ethnicity.

1.2.8. Estimated EC contribution

EC support to the health sector programme could absorb an allocation of 60-75% of the NIP 2007-2010.

1.2.9. Coordination with Member States and other donors

Coordination will be ensured by the DOH's Stakeholder Coordinating Mechanism. In addition, the EC will foster close relationships with EU Member States involved in the sector programme and will encourage other Member States and donors to join the programme.

1.2.10. Indicative timeframe

EC support for phase 2 would start after the end of phase 1 (probably 2009) -if necessary, earlier – and would last for 3-4 years.

II. Non-focal sectors

1. Support to the Mindanao Peace Process

1.1. Strategy, Context/Justification

The issue of restoring peace and security in Mindanao continues to be a key challenge. The Government asked the World Bank in 2003 to consider establishing a multi-donor trust fund for Mindanao to which the World Bank agreed. The EC and other donors including some MS had expressed their intention to contribute towards this Trust Fund should it be established under appropriate conditions.

Following EC-World Bank discussions, the EC concluded that it would provide support to Mindanao under the MTF. The EC included under its NIP for 2005-2006, assistance to the MTF, which is conditional upon the signing of a peace agreement between the Government and the Moro Islamic Liberation Front (MILF). However, there is still uncertainty regarding the timing of the signature of the peace agreement.

Resumption of the formal peace talks encountered delays. However, interim preparations and informal meetings were held. A bilateral cease-fire agreement was signed on 19 July 2003 between the Government of the Philippines (GoP) and the Moro Islamic Liberation Front (MILF) in preparation for the formal peace talks and has mostly been respected. A third party monitoring team, consisting mainly of members of the Organisation of Islamic Countries (OIC) headed by Malaysia, meanwhile, continues to monitor the implementation of the cease-fire agreement.

The World Bank had fielded the Joint Need Assessment (JNA) team in March/April 2004 to carry out needs assessment on the identified five areas for assistance (governance and institutions, economy and livelihood, social services, infrastructure, and finance and private sector). Peer reviews on the JNA reports were undertaken in

November/December 2004 with EC participation. Another review was carried out in WB headquarters in April 2005 and the final report was released in January 2006.

In July 2005, the World Bank formally established the MTF. Some donors, including Australia, Canada and New Zealand have already started to contribute to its first phase (preceding the conclusion of a formal peace agreement) which focuses on capacity building activities.

In 2005, the GoP and the MILF held various rounds of talks in Malaysia. The Government and the MILF issued a joint statement expressing deep satisfaction over the results of the talks, citing substantial progress on the ancestral domain issue.

Recognizing the complexity of the peace process, the socio-economic concerns of the MILF combatants and conflict-affected communities need to be addressed as soon as possible thus providing critical confidence- and sustainable peace-building measure within Mindanao and the country as a whole.

EC contribution to the MTF responds to the priorities that were set out in the CSP, i.e. providing support to the most vulnerable sectors of society and in particular on stability and security issues in poverty-stricken Mindanao.

1.2. Objective

The overall objective of the Mindanao Trust Fund (MTF) is to contribute to peace and development in the Philippines. The programme purpose will be the reconstruction and development of conflict-affected areas in Mindanao. Sector priority areas will be:

(a) **Governance and institutions:** establishment or reinforcement of public administration and training of local government personnel, justice and the rule of law, community recovery, role of civil society; (b) **Economic status and livelihood requirements:** development of the agricultural and fisheries sector, environment and natural resources; agrarian reform, ancestral domain, basic socio-economic services; (c) **Social services:** development of the education, health and sanitation systems, social safeguards; (d) **Infrastructure:** construction of roads and bridges, telecommunications, sea ports and airports, energy; (e) **Finance and private sector:** development of the financial sector and enhancing the establishment of small and micro-enterprises; financial intermediation.

It is also foreseen that security and psycho-social concerns/issues will be addressed in particular on rehabilitation, disarmament, demobilization and reintegration. The EC insists on the link between these and developmental issues.

1.3. Expected results

Creation of a socio-economic environment, which would enhance the sustainability of peace in Mindanao as an enabling environment for further development in the poorest region of the country.

1.4. Activities

The JNA identified the specific sectors and the resulting activities to be implemented (see objective).

1.5. Implementation

The EC will enter into an Administration Agreement with the World Bank. The Bank as Administrator of the Trust Fund will primarily be responsible for overseeing, coordinating, supervising recipient activities, reporting to the Steering Committee (SC) on the overall program development; and for liaising with current and potential donors regarding MTF funding. Lead donors, including the EC, will be represented in a Steering Committee that will set the policy and the priorities of the Trust Fund. The implementation of the MTF will be entrusted to the World Bank using its own procedures, including WB procurement rules. A comprehensive Program Operations Manual will ensure that clear guidelines are in place for all actions and actors involved in the Program. The EC's contribution, in the form of grants will be released into the Trust Fund in 2 tranches: an initial and relatively smaller contribution to Phase I of the MTF; the balance will be provided upon commencement of Phase II through an extension of the contribution agreement. If a peace agreement is not in sight within a reasonable time (18 to 24 months from the start of the MTF Programme) or achievement of decisive progress towards this agreement, partners (GoP, donors and WB) will meet to discuss and decide on the next steps. Counterpart contributions will add to the viability and sustainability of the activities.

1.6. Cross-cutting issues

Cross-cutting issues such as human rights, gender, governance, environment and migration were addressed in the JNA and will be mainstreamed in the MTF.

1.7. Risks and assumptions

The EC contribution to the MTF is based on the assumption (not a pre-condition though) that a peace agreement will be concluded between the GoP and the MILF.

A major risk is that the peace process derails. There is a risk that non-conflict areas could be disenfranchised. A further risk is the security situation in the area making travel for international experts sometimes impossible. The donor community through close coordination should assist involved parties to keep peace on track.

Another risk from the EC perspective is limited visibility for the EC. EC will therefore request to participate on an equal footing with the World Bank in policy dialogue through appropriate representation in the MTF Steering Committee and through enhanced coordination with Member States and other donors.

1.8. Main indicators

Indicators will be established as a result of the JNA but a few preliminary indicators could be as follows: a) Peace agreement respected by both government and MILF; Poverty rate reduced in conflict affected areas in Mindanao; b) Child mortality and other health-related indicators significantly improved in conflict affected areas; c) School enrolment rate and other health-related indicators significantly improved in conflict affected areas; d) Community participation significantly increased in conflict affected areas; e) employment creation and income generating possibilities significantly improved in conflict affected areas.

1.9. Estimated EC contribution

This activity is carried over from the NIP 2005-2006 where an amount of €11-13 million had been earmarked. The same amount is envisaged under this NIP. In case

the Mindanao Peace Process derails, funding earmarked under this CSP to contribute to the Mindanao Trust Fund will revert to the focal sector.

1.10. Co-ordination with Member States and other donors

There is good ongoing donor coordination among Member States (Austria, Belgium, Denmark, Finland, Italy, Netherlands, and Sweden) and with other donors in the Donors Group on Mindanao as well as in the Mindanao Working Group (MWG).

1.11. Indicative timeframe

Initial total donor funding is targeted for US\$ 50 million (or approximately €43 million), which will cover the establishment and operations of the MTF over a 7 year period until December 2012. The EC contribution to the Trust Fund of €12 million will be released into the Trust Fund in two tranches: a first tranche of up to €1 million as a contribution to Phase I of the MTF, which was formally established in July 2005 ; the balance of the EC contribution will be released upon commencement of Phase II of the MTF.

2. Dialogue on Governance

2.1. Strategy context/justification

The Small Projects Facility, during its first implementation period, has proven to be an appropriate tool to support small, innovative and visible projects in areas of strategic importance for the Philippines and the EU, and has generated considerable interest on part of both State and non-State actors. It filled a gap in EC cooperation by providing a demand-driven but nevertheless strategically targeted funding instrument: both non-state actors as well as government were given support in priority areas selected according to their relevance in the Filipino and EU contexts.

Drawing on past experience, support will be given to the Dialogue on Governance between State and non-State actors through an even more focused Strategic Projects Facility, which will aim to boost reform efforts and good governance⁷, and to contribute to enhancing the participation and capacities of non-State actors in such reforms. This Dialogue will thus contribute to the core objectives of the CSP, and its mechanism, the SPF will complement appropriately other EC funding mechanisms: it provides non-state perspectives on issues addressed through budgetary support programmes; it extends support to sectors not or no longer covered under the NIP, but still deemed relevant such as education and rural development; it can also replicate best practices stemming from past EC support.

Demand for SPF funding has increased exponentially. Moreover, from the onset the dissemination strategy for the first SPF aimed at ensuring high levels of relevance and quality of proposals. This should lead to an increase in project proposals of direct relevance to EC/EU and Philippines policy agendas that cannot be funded under other grant programmes available in the Philippines. In order to meet this demand, a second phase to the re-focused SPF would be given a total allocation of up to 13% of the NIP 2007-2010.

⁷ The advancement of good governance could be pursued in various sectors such as education, environment and sustainable natural resource management, rural development and agrarian reform, access to sustainable energy services etc.

2.2. Objectives

Overall objective: support key governance reforms in the Philippines.

Project purpose: Civil society involved and able to contribute effectively to reforms of strategic importance to the people of the Philippines and mutual interest to the Philippines and the EU.

Specific objectives: Through providing incentives for short-term, results-oriented actions, promote multi-stakeholder dialogue, networking and collaboration on governance aspects of important reforms processes in the Philippines.

2.3. Expected results

Enhanced dialogue, networking and partnerships with and between Filipino and EU civil society and non-state actors, including private sector, in vital economic and social reform areas, contributing to boost good governance.

2.4. Activities

Networking, capacity-building, studies, media products, advocacy, pilot initiatives, and other activities in line with objectives.

2.5. Implementation

The SPF will be managed directly by the EC Delegation in Manila. The Delegation will be responsible for the selection and follow-up of projects. An advisory committee will provide guidance on orientation and implementation.

2.6. Cross-cutting issues

Selection, monitoring and evaluation of SPF projects will explicitly consider cross-cutting issues of governance, gender and equal opportunities, environmental protection and human rights and labour standards. In addition, rights of indigenous peoples and conflict prevention will be addressed in SPF projects dealing with populations concerned by these issues.

2.7. Risks and conditions

Given the N+3 rule, all contracts under the SPF will have to be concluded no later than three years after the Financing Decision of the SPF; past experience has shown that the SPF will be extremely sensitive to any delays. The SPF is a labour-intensive instrument in terms human resources. Mechanisms will have to be devised to rationalise this investment such as larger project sizes and more targeted calls for proposals.

2.8. Suggested indicators

On social, economic and governance issues addressed through the SPF, intensification of public debate, changes in legislation, increased awareness of European perspective on these issues.

At least 20 projects financed; 80% of projects include a European dimension; 80% of projects receive press coverage in national media at least once; final evaluation of SPF programme reports positive impact after project completion for 90% of projects; final evaluation of SPF programme reports sustainability of results for 70% of projects.

Indicators will be developed further, and can be modified, in the financing agreement.

2.9. Estimated EC contribution

Given the success of the first SPF in achieving the afore-mentioned objectives, the allocation for this second phase of the SPF will be increased to up to 11-13% of the NIP 2007-2010. Financial support to any given project may range from €100,000 to €500,000, which as a rule represent up to 75% of the total project cost. Thus, the applicants/beneficiaries are expected to co-finance at least 25% of total project costs.

2.10. Coordination with Member States and other donors

The SPF task manager will be member of the Small Grants Donors Group, an informal group comprising several embassies, among which Member States embassies, for coordination of activities, exchange of information on projects and grantees, and joint initiatives.

2.11. Indicative Timeframe

A financing agreement will be signed with Government in 2007.

Standard duration of projects will be one year, with the possibility of an extension to 24 months, subject to approval of the Commission. Overall programme duration will be four years.

3. Trade Related Assistance (TRA)

3.1. Strategy Context/Justification

Trade is one of the six priority areas for the EC development co-operation. The Commission has further committed itself in the Doha Ministerial Declaration to support developing countries through trade related technical assistance and capacity building. This reflects the recognition that trade can play an important role in generating pro-poor growth. Empirical evidence has shown that on average, over the medium to long term, trade liberalization does contribute toward poverty alleviation. However properly sequenced complementary policies may well be required to mitigate against any short term negative effects. The country's medium-term development plan indicates that government intends to fully use the trade potential to bring about employment generation and SME development notably in the agricultural sector, on which most of the poor rely. The Commission therefore proposes to step up its trade related assistance in the new NIP, building on and consolidating the current TRA (bilateral, Asia Trust Fund, ASEAN Regional). Furthermore, the TRA to the Philippines should complement the EC's regional policy within Southeast Asia, particularly the negotiation of any future EC-ASEAN FTA, and support the ASEAN integration process, including co-operation under the Trans-Regional EU-ASEAN Trade Initiative (TREATI) and the ASEAN Programme for Regional Integration Support (APRIS), where appropriate.

3.2. Overall objective

- To enhance the Philippines' participation in world trade and particularly improve EU-PH trade and investment relations while maximising its benefits for the country's development and poverty reduction agenda and paying attention to the social dimension of globalisation

3.3. Project Purpose

To facilitate trade by strengthening the capacity of the main public and private stakeholders concerned and alleviate the technical constraints for trade in order to make better use of the Philippines' rights under the multilateral trading system and opportunities offered by the EU, promote pro-poor growth and minimise the costs of economic integration.

3.4. Expected results

Overall expected results are:

- Capacity of the Ministry of Trade and other relevant Ministries in trade policy matters relating to multilateral, regional and bilateral trade relations is increased
- Capacity of government and private sector to address issues affecting EU-Philippines trade flows, particularly in the areas of standardization, sanitary and phyto-sanitary requirements, services, customs, competition etc is strengthened
- Conditions for domestic and foreign investment are improved
- A more competitive SME exporting community in selected economic sectors

3.5. Activities

In the first half of 2005, a comprehensive trade needs assessment was carried out in the Philippines, which has identified a set of targeted interventions aiming to achieve a wide range of specific results. These will be further fine-tuned during appraisal and formulation

3.6. Implementation

Implementation modalities will be further defined in the appraisal mission and could follow decentralised management procedures, based on lessons learned from the current TRTA programme.

3.7. Cross-cutting issues

The Philippines trade policies and regulations should aim at maximizing the positive externalities for the environment as well as for animal plant and human health and safety. More transparent and better collection of import duties could support increased public expenditures, ideally on social services. It could also support GoP's anti-corruption efforts and contribute to improve overall governance, both at public and corporate level.

The Project will also aim at ensuring that gender participation in all activities is on an equal opportunity basis. Further screening of gender issues will be taken up by the project appraisal mission.

3.8. Risks and conditions

Protectionist measures in the main international markets, bad economic performance in the region and/or Philippines, insufficient progress in the Government revenue-raising agenda, lack of effective implementation of core labour standards, or a lack of public support may put at risk the Filipino commitment to an outward oriented trade policy. The planned advocacy activities aim at mitigating this risk.

The success of the EC project also relies on continued overall political stability, on sound project management and on the availability of appropriate expertise.

3.9. Main indicators

Monitoring indicators will differ according to activity and could be differentiated according to gender where appropriate. They will be SMART and subdivided in the four following categories:

- a) Input-based, like the number of public events, seminars and workshops held and their attendance; number and timing of expertise mobilized; number of trainings provided.
- b) Output-based: upgraded SPS regulatory framework and performance; development of training modules for the government and industry; number of replications of the trainings received.
- c) Result-based such as the reduction of transaction costs and time needed for customs clearance and increased customs revenues; reduction in the number of detentions, rapid alerts and other forms of product access controls at importing countries; .number of jobs created in the export sector.

Indicators will be refined in the formulation mission. Performance monitoring will be assessed against the general and specific objectives set in the Logical Framework.

3.10. Estimated EC contribution

Building on the TRA programme, which started in 2005, the EC will allocate 11-13% of the NIP 2007-2010.

3.11. Coordination with Member States and other donors

Donor coordination will be strengthened and formalized through a thematic network and the opportunity and feasibility of a sector wide approach for TRA will be explored aiming at maximizing resources and programme synergies.

3.12. Indicative timeframe

The project could be approved in 2007/8 with an implementation period of around four years.

ANNEX I Projects

Bilateral projects	Decision date	Final date of implementation or Final date for contracting	EC allocation (EUR)	Financing Decision No
Title				
Agrarian Reform Support Project (ARSP)	25-Nov-1994	31-Dec-2004	18,834,661	ASIE/1994/002-725
Anti-money laundering project (AMLPL)	17-Dec-2004	20-Dec-2007	961,000	ASIE/2004/016-968
Border management	21-Dec-2004	31-Dec-2005	4,900,000	ASIE/2004/016-924
Catanduanes Agricultural Support Programme (CATAG)	18-Dec-1992	31-Dec-2005	9,481,510	ASIE/1992/003-279
Central Cordillera Agricultural Programme, Phase II (CECAP 2)	21-Dec-1995	31-Dec-2006	22,395,788	ASIE/1995/004-034
Earthquake Rehabilitation Programme (ERP)	19-Dec-1990	31-Dec-2005	22,600,000	ASIE/1990/003-153
Economic Self-Reliance Prog, Caraballo & Southern Cordillera Agr'l Devt (ERP-CASCADE)	25-Nov-1996	31-Dec-2005	13,148,651	ASIE/1996/002-629
EU-Philippines Economic Co-operation Small Projects Facility	18-Dec-2002	31-Dec-2008	3,000,000	ASIE/2002/002-472
Framework Contract AMS/451 - Dev. Co-operation - Philippines 20003/2004	15-May-2003	31-Dec-2004	825,000	ASIE/2003/005-022
Framework Contract AMS/451 - Economic Co-operation - Philippines 2003/2004	15-May-2003	31-Dec-2004	300,000	ASIE/2003/005-024
Global Review on EC-Philippines Development Co-operation	1-Jun-1999	31-Dec-2003	388,600	ASIE/1999/002-578
Improving governance to reduce poverty: Access to justice for the poor	10-Nov-2003	10-Nov-2009	2,731,920	ASIE/2003/004-980
Improving governance to reduce poverty: Corruption prevention	10-Nov-2003	15-Feb-2009	2,905,600	ASIE/2003/005-572
National Integrated Protected Areas Prog, (NIPAP) - PHL/B7-5041/93/20	31-Dec-1993	31-Dec-2005	10,600,000	ENV/1993/005-538
Palawan Tropical Forest Protection Programme (PTFPP)	25-Nov-1993	30-Jun-2005	15,663,836	ASIE/1993/002-685
Rehabilitation Philippines 1997 - SZOPAD	15-Dec-1997	30-Jun-2004	2,000,000	REH/1997/004-635
Support to Agrarian Reform Communities in Central Mindanao (STARCM)	22-Dec-1999	31-Dec-2010	18,422,000	ASIE/1999/002-579
Trade-related technical assistance in the Philippines	19-Nov-2004	22-Nov-2007	3,500,000	ASIE/2004/016-781
Upland Development Programme in Southern Mindanao (UDP)	6-Nov-1997	31-Dec-2006	18,300,000	ASIE/1997/002-733
Western Samar Agricultural Resource Development Programme (WESAMAR)	27-Apr-1999	31-Dec-2003	14,420,362	ASIE/1992/002-738
Women's Health and Safe Motherhood Project-Partnerships Component	31-Dec-1995	31-Dec-2004	14,529,769	ASIE/1995/002-726
Framework Contract AMS/451 - Dev. Co-operation - Philippines 2005			540,000	

Thematic budgetline projects	Decision date	Final date of implementation or Final date for contracting	EC allocation (EUR)	Contract number	Financing Decision No
Title					
Access to justice and Human Rights: Advocacy for the Rights of the Disappeared	1-Jun-2005	1-Jun-2008	77,825	DDH/2004/089-987	
Aid to uprooted people - Call for Proposals - Philippines	24-May-2004	31-Dec-2005	2,000,000		REH/2004/006-210
Aid to Uprooted People in Asia- Call for Proposals- Philippines	16-Mar-2005	31-Dec-2006	3,000,000		REH/2005/017-108
Analyse ADN	13-Aug-2001	21-Oct-2004	305,593	DDH/2000/050-415	
Anti-Death Penalty Campaign	15-Nov-2000	30-Jun-2005	200,205	DDH/2000/050-398	
Assistance to displaced people in Maguindanao province	21-Dec-2000	30-Jun-2004	1,150,000		REH/2000/003-551
Assistance to improve the living condition for the war affected families in Lanao del Sur and Maguindanao Provinces, Mindanao	1-Aug-2002	31-Dec-2004	800,000		REH/2001/003-914
Assistance to refugees in West Mindanao	1-Dec-2000	31-Dec-2005	900,000		REH/2000/003-553
Block grant 2003	11-Aug-2004	4-Jan-2007	901,769	ONG-PVD/2004/064-530	ONG-PVD/2003/004-564
Candijay Family based integrated development project, Bohol	19-Dec-2000	12-Jan-2005	223,979	ONG-PVD/2000/011-361	
Capacity Building Program for Civil Society & Local Government Units to Prevent Child and Woman Trafficking for Commercial Sexual Exploitation in the Visayas and Mindanao Regions of the Philippines	3-May-2003	5-Jan-2007	610,612	ONG-PVD/2003/019-893	ONG-PVD/2002/001-092
Consolidation of the socio-economic integration process of marginal internally displaced farmers in Lanao del Norte, Mindanao	31-Dec-2001	31-Dec-2005	1,200,000		REH/2001/003-915
Donation globale 2002	12-Dec-2003	1-Jan-2006	567,694	ONG-PVD/2003/027-172	ONG-PVD/2003/004-913
Donation globale 2003	19-Aug-	1-Jan-2006	730,404	ONG-PVD/2004/064-	ONG-

	2004			588	PVD/2003/004-564
EC Support for the Philippines HIV/AIDS NGO support programme, PHANSUP	8-Oct-1997	31-Dec-2004	943,056		SANTE/1997/003-743
Establishment of market driven and technology based courses and further training for the information technology sector in the national capital region	21-Sep-2004	12-Jan-2009	555,598	ONG-PVD/2004/062-876	ONG-PVD/2003/004-562
Expansion of Quality Technical Education in Tarlac through the Institutional Strengthening of Tarlac Training Center, Phase I - Philippines	26-Feb-2003	5-Jan-2006	363,524	ONG-PVD/2003/020-095	ONG-PVD/2002/001-092
Facilitating justice for children in conflict with the law	1-Jul-2002	4-Jan-2006	410,668	ONG-PVD/2001/011-815	
Fair trade assistance to community enterprises	14-Jan-2002	4-Jan-2006	766,497	ONG-PVD/2001/011-817	
Family education and and community programme in Palawan	19-Dec-2000	4-Jan-2004	396,949	ONG-PVD/2000/011-359	
Governance and Local Development for Endangered Forests	31-Dec-2004	31-Dec-2009	1,489,269	ENV/2004/081-910	
Graded literacy programme for Banwaon and Manobo children, phase II	26-Oct-2000	7-Jan-2005	104,128	ONG-PVD/2000/011-360	
Habitat community partnership programme	2-Jun-2001	6-Jan-2004	999,736	ONG-PVD/2000/011-456	
Integrated forest conservation with local governance in the Phillipines	29-Dec-2000	30-Jun-2005	1,268,014		ENV/2000/005-039
Integrated training and extension programme on sustainable agriculture II,	12-Jun-2000	10-Jan-2003	289,193	ONG-PVD/2000/011-358	
Mount Isarog Integrated Cons. & Developmentject	31-Dec-1999	31-Dec-2005	978,547		ENV/1999/003-637
PEACE-Mindanao. Peace enabling actions for community empowerment in North Central Mindanao.	21-Dec-2004	1-Jan-2007	700,000	REH/2004/094-789	REH/2004/006-210
Professional training for marginalized youth in southern Philippines with job placement programme and establishment of a polytechnic system	17-Jan-2002	1-Jan-2007	1,047,217	ONG-PVD/2001/011-762	
Project d'appui aux familles en grandes difficultes dans les bidonvilles de Manille	1-Nov-2002	9-Jan-2006	809,333	ONG-PVD/2001/011-814	
Rajah Sikatuna National Park Bio-diversity Conservation and Community Poverty Reduction Project, Bohol	1-Oct-2002	31-Dec-2008	652,811		ENV/2002/004-272
Rehabilitation support returnees & host families C. Mindanao	1-Dec-	30-Jun-2004	1,123,114		REH/2000/003-552

	2000				
Strengthening of democratic processes in local governance and the promotion of sustainable integrated area development for marginalized sectors in Negros Occidental, Biliran+Northern Mindanao	17-Dec-2003	2-Jan-2007	759,871	CDC/2003/051-415	CDC/2003/005-002
Strengthening the Abolition of the Death Penalty Campaign by Information Drive	1-Jul-2002	11-june-2006	300,000		DDH/2002/002-934
Support for the consolidation of the local capacities of the population in conflict affected areas of Lanao del Sur and Maguindanao	24-Dec-2002	30-Dec-2004	600,000		REH/2002/002-712
Support to the socio-economic integration process of internally displaced people in the Municipalities of Piago, Kapai, Marantao, Marawi, in the Lanao del Sur Province, Island of Mindanao, Philippines	24-Dec-2002	30-Dec-2005	965,952		REH/2002/002-690
Supporting and Rehabilitating IDPs and Communities in Southern Philippines	16-Dec-2003	31-Dec-2004	3,000,000		REH/2003/005-889
Taking Roots Again - A vulnerability reduction program for the internally displaced people of Mindanao	29-Dec-2004	1-Jan-2007	1,188,430	REH/2004/094-790	REH/2004/006-210
Tropical Forestry Small Grants	26-Dec-1999	30-Jun-2010	15,132,500		ENV/003-607 - ASI/1999/0158
Western Batangas agrarian reform communities support project	14-Jan-2002	4-Jan-2004	950,576	ONG-PVD/2001/011-851	
WIFE-Modest Credit Facilities for Women in Philipp	5-Dec-1996	30-Jun-2005	32,000		GENRE/1996/003-780
			48,495,063		

Regional programmes & projects	Decision date	Final date of implementation	EC allocation	Contract number	Financing Decision No
		or	(EUR)		
Title *		Final date for contracting			
Advancing Environmental Management with NESPEMS	1-Jun-2003	1-Aug-2004	129,409	ASIE/2003/062-807	ASIE/2001/002-598 ASIA Pro Eco
Asia-INTERPRISE Event: A Window of Opportunities on ICT Sector	2-Sep-2003	2-Jun-2004	129,197	ASIE/2003/071-223	ASIA/2002/004-032 ASIA Invest
Building Business Management Skills in Small Co-operative Enterprises	4-Oct-2002	5-Nov-2005	450,000	ASIE/1995/048-804	ASIA/1995/002-544 ASIA Urbs
Building local capacity to manage and deliver an international HR quality standard	12-Nov-2004	1-Feb-2007	120,356	ASIE/2004/095-227	ASIE/2002/004-032 ASIA Invest
Business Encounters in the Food Sector: EU-Philippines	9-Oct-2003	8-Jun-2005	116,593	ASIE/2003/071-739	ASIA/2002/004-032 ASIA Invest
Capacity Building for Implementation of UN Guidelines	20-Nov-2003	21-Sep-2004	330,000	ASIE/2003/072-727	ASIE/2001/002-598 ASIA Pro Eco
CEIE (Cultural and Environmental Information Exchange	1-Mar-2004	1-Sep-2005	400,000	ASIE/2003/071-540	ASIE/1997/003-152 ASIA IT&C
Curriculum Development for Urban Planning and Management with a special emphasis on Poverty Alleviation	19-Sep-2002	19-Sep-2005	300,000	ASIE/1998/049-234	ASIE/2003/002-571 ASIA Link
Development of Core Competencies in the areas of Biomedical and Clinical Engineering in the Philippines and Indonesia	13-Dec-2004	4-Jan-2007	292,552	ASIE/2004/093-808	ASIE/2003/005-753 ASIA Link
EU-Asia ITC-Learning Bridges	12-Oct-2004	6-Nov-2006	108,501	ASIE/2004/093-191	ASIE/2003/005-627 ASIA IT&C
EU-Philippines COMQUAL	11-Sep-2004	6-Jan-2007	400,000	ASIE/2004/090-982	ASIE/1997/003-152 ASIA IT&C
Expanding Expertise Network for generating and sharing knowledge related to Spatial Planning And Decision Support	1-Jan-2004	1-Jan-2006	200,000	ASIE/2003/065-202	ASIE/1997/002-663 AUNP
Geoteach Censophil	21-Dec-2004	1-Mar-2007	399,738	ASIE/2004/093-790	ASIE/2003/005-627 ASIA IT&C
GIS-based Urban Environmental Resources Management	27-Feb-2002	28-Feb-2004	472,522	ASIE/1995/048-859	ASIA/1995/002-545 ASIA Urbs
Human Resource Development: Improving the Quality of Maritime Education in Europe and the Asia-Pacific	6-Jan-2004	6-Jan-2006	185,275	ASIE/2003/065-219	ASIE/1997/002-663 AUNP
IMAMIS (International Master of Applied Mathematics and Information Sciences)	15-Dec-2004	31-Dec-2007	293,746	ASIE/2004/093-927	ASIE/2003/005-753 ASIA Link

IML (Development of the INGRIN Multimedia Lexicon of Graphic & Media Terms	1-Mar-2003	1-Dec-2005	256,139	ASIE/1997/051-898	ASIE/1997/003-152 ASIA IT&C
Implementation and Realisation of an Asian-European Master's Degree and Continuing Training Lessons in Food Science and Technology	1-Jan-2003	1-Aug-2005	243,487	ASIE/1998/049-227	ASIE/2003/002-571 ASIA Link
Improving Health Services Offered to Marginalized Mothers and Young Children	17-Dec-2002	31-Mar-2005	306,000	ASIE/1995/048-817	ASIA/1995/002-544 ASIA Urbs
Investing in Sustainable Marine Aquarium Trade (ISMAT)	13-Dec-2004	14-Dec-2006	199,543	ASIE/2004/094-035	ASIE/2002/004-032 ASIA Invest
ITCAN-Information and Communications Technology Capacity-Building for Asia Network	1-Jan-2003	1-Jan-2005	200,000	ASIA/1997/051-865	ASIE/1997/003-152 ASIA IT&C
PhillipFishing	21-Dec-2001	22-Jun-2002	12,037	ASIE/1995/048-850	ASIA/1995/002-545 ASIA Urbs
Quality Network for Rational Drug Management in Primary Health Care in Asia and Europe (QU4RAD)	1-Apr-2003	1-Jul-2005	198,923	ASIE/1997/051-901	ASIE/1997/003-152 ASIA IT&C
SEABCIN (South East Asian Botanical Collections Information Network)	1-Nov-2001	1-Nov-2004	395,384	ASIE/1997/051-837	ASIE/1997/003-152 ASIA IT&C
Strengthening of Institute for Agroforestry and Watershed Management, Philippines	2-May-2003	2-May-2006	300,000	ASIE/2003/057-686	ASIE/2003/002-571 ASIA Link
Strengthening the Cebu Furniture Industries Foundation (CFIF) through networking with two German intermediary business associations (IBOs) in the field of product design and marketing to the EU	21-Dec-2004	22-May-2007	144,887	ASIE/2004/091-729	ASIE/2002/004-032 ASIA Invest
ASEM Trust Fund 1 - Philippines			8,006,407		
ASEM Trust Fund 1 - regional covering the Philippines			5,186,444		
ASEM Trust Fund 2 - Philippines			5,723,000		
ASEM Trust Fund 2 - regional covering the Philippines			3,190,829		
ASEAN REGIONAL CENTRE FOR BIODIVERSITY	19-Apr-1999	31-Dec-2004	9,317,555	ASIE/1997/050-964	002-973 - ASE/1997/0243
ACB	17-Dec-2004	17-Dec-2007	6,000,000	not yet signed	ASIE/2004/16861
			44,008,525		
* = Regional programmes & projects handled either by other Delegations (e.g. EAEF, COGEN, ECAP II, Civil Aviation Programme etc.) or by HQ (e.g. ASIA wide before deconcentration) assumed to be reported from there.					

ANNEX II State of affairs in the Philippine health sector

After 50 years of marked health status improvement in the Philippines, progress has slowed down during the 1990's leading to minimal improvements and leaving the country behind neighbouring Southeast Asian countries. Progress in health status has been achieved over recent years, especially in respect of lowering child mortality (from 66/100,000 in 1990 down to 40/100,000 in 2003), but major issues are still to be addressed, in particular:

- The maternal mortality rate is still far above that of comparable countries (about 8 times that of Malaysia at 172/100,000 livebirths), partly resulting from a high rate of unmet needs for family planning⁸ (17.3%) and high fertility rates (3.5 children per woman).
- There is a high degree of malnutrition (30.6 %) and micronutrient deficiency among children under five years of age.
- TB prevalence is unduly high (316 cases per 100,000 population) impacting on the country's work force productivity and the level of economic development.
- The potential threat of an HIV/AIDS epidemic due to unchecked high risk behavior.

Inefficient and inequitable health systems

The above situation can in part be attributed to the overall inequity and inefficiency of the Philippines health system in terms of both financing and service delivery arrangements, partly resulting from the devolution of responsibilities for health care provision to local governments brought about by the Local Government Code (1991). The challenge is to improve access to quality health care services in a fully decentralised environment exacerbated by the fiscal crisis which affects the Philippines and translates into cuts in the DOH budget.

A wide range of issues need to be addressed:

- Access to health care both social and geographical is inequitable and penalizes the poor.
- There is a disconnect between LGUs and the national government, resulting in difficulties to implement national policies.
- Available LGU resources, in the form of technical expertise/human resources or financial capacity, are not in line with the requirements and responsibilities under the devolved set-up. In particular, the fiscal transfers from the central government to the LGUs do not take relative poverty levels into account, which results in difficulties in providing the needed health services in the poorest LGUs whose capacity to raise local revenues is deficient.
- Hospitals absorb a large share of health expenditures at the expense of primary care. This is the case at both the central level and the LGU level, where the provision of hospital services and beds is not rationalized, leading to under supply in some areas and over supply in others.
- Poor drug procurement practices and utilization patterns result in excessive costs and chronic drug shortage in the public health service.
- Households, which contribute more than half of the total spending for health, get little value for money, especially due to insufficiently regulated and highly priced drugs.

⁸ Source: National Statistics Office, National Demographic and Health Survey, 2003. This figure is the percentage of currently married woman who either do not want a child, or any more children, or want to space births, but are not using any method of family planning.

Government response

The Health Sector Reform Agenda⁹ (HSRA) adopted by the Department of Health (DOH) in 1999 constitutes the right response to the situation. The HSRA aims at rationalizing hospitals and health systems; improving the quality and lowering the cost of drugs; enhancing social protection and ensuring better value for money through sustained enrolment in the social health insurance; and strengthening DOH's regulatory capacity. However, as recognized by the DOH, supplementary measures are needed if the impact of reform is to be maximised and the negative effects of the declining DOH budget prevented. Two broad directions for action have been identified by the DOH: strengthening DOH internal management systems and operationalising the devolved health system.

The HSRA's implementation was delayed (it only started in 2001) and has been suffering from a lack of coherence, through scattered and uncoordinated donor-funded projects and limited DOH capacity to lead and support the reform process. Acknowledging these limitations, the DOH requested the EC¹⁰, to be its initial partner in developing a sectoral approach to health development. Progress is under way in DOH in the preparation of a formal sector approach policy. This policy is known as the Sector Development Approach for Health (SDAH) and will encompass the standard elements of the sector-wide approaches. Other reform developments at DOH include the broadening of the reform concept in order to cover the cross cutting issues that were not explicitly addressed in the original HSRA concept, especially regarding internal DOH management and public finance management and procurement, which are critical to the development of a SWAp. Two broad directions for action have been identified by the DOH i.e. strengthening DOH internal management systems and operationalising the devolved health system:

DOH INTERNAL MANAGEMENT SYSTEMS		HEALTH SECTOR-WIDE (LGUs, private sector, other partners)	
1.	Procurement management	1.	Planning
2.	Finance management	2.	Referral systems
3.	Logistics management	3.	Financing
4.	Human resource management	4.	Procurement
5.	Management information system	5.	Public finance management
6.	Monitoring and evaluation	6.	Delivery systems
7.	Pharmaceutical management	7.	Regulatory systems
8.	Regulation	8.	Governance
		9.	Service delivery mechanisms
		10.	Pharmaceuticals access to quality drugs
		11.	Human resource development
		12.	Management information system
		13.	Monitoring and evaluation systems

The above developments are being incorporated in the national health policy, which is currently undergoing revision¹¹.

⁹ The HSRA is composed of five complementary elements: (i) Health financing reform (increased coverage of the National Health Insurance Program, especially for the poor); (ii) Public health reform (to secure funding for priority public health programs and to restore the technical leadership of DOH); (iii) Local health systems reform (to restore the integrity of the district health system); (iv) Hospital reform (to enhance hospital efficiency and service quality, through system development and granting of fiscal and managerial autonomy) and (v) Regulatory reform (to ensure the quality and reduce the costs of health products).

¹⁰ In November 2003.

¹¹ The former policy was covering the period 1999-2004 and is being revised in line with the MTDPD 2004-2010.

Specific measures which are being contemplated by the DOH include:

- The clarification of the roles and functions at the different levels of local government and central/national government bureaus.
- The implementation of needs and performance-based resource allocation for LGUs.
- The acceleration of reform implementation and the enlargement of the scope of reform in order to address the issues of human resource, monitoring and evaluation, and public finance management (implementation of reforms initiated by the government oversight agencies; performance-based hospital financing systems).
- The development of a sectoral approach for health (the Sector Development Approach for Health, or SDAH), aiming at raising the quality and the efficiency of investments for health through the alignment of resources with priorities, the government-led coordination of development partners and the harmonization of external aid.
- The development of public-private partnership in terms of health service delivery, health care financing and health governance and regulation.

Donor response

In line with the above policy developments, major donors supporting the HSRA (ADB, WB, GTZ, EC) are currently working on the development of a coordinated support to the phased implementation of the expanded HSRA concept. This support will aim at supporting reform implementation at DOH and in a set of provinces forming the DOH's Phase 1 reform implementation programme. The EC support is expected to start by the second quarter of 2006 and to result in the increased utilisation of affordable and financially sustainable, quality essential health services and population programs by the poor¹².

Support from the EC is expected to start by the second quarter of 2006 and to result in the increased utilisation of affordable and financially sustainable, quality essential health services and population programs by the poor. Expected outputs are expressed in terms of strengthened outpatient benefit package of the Social Health Insurance system, increased SHI membership among the poor and the self-employed, improved utilisation patterns in hospitals (referral), improved access to maternity services and reproductive health services, expanded coverage of franchised drug distribution systems at community level, etc. The programme also aims at developing DOH and LGU systems and capacities in financial management, procurement systems, strategic planning, financial planning and monitoring and evaluation.

¹² Expected outputs are expressed in terms of strengthened outpatient benefit package of the Social Health Insurance system, increased SHI membership among the poor and the self-employed, improved utilisation patterns in hospitals (referral), improved access to maternity services and reproductive health services, expanded coverage of franchised drug distribution systems at community level, etc. The programme also aims at developing DOH and LGU systems and capacities in financial management, procurement systems, strategic planning, financial planning and monitoring and evaluation.

ANNEX III Trade Issues

Philippine Trade Policies

Unilateral trade reforms in the Philippines over the last two decades have led to reductions in average nominal applied tariff rates from over 40% to around 8%¹³. This series of reforms resulted in significant changes in the structure of the economy, which became more open and integrated with the world economy. The share of manufactured goods in total exports increased from 25% in 1981–1985 to 90% in 1996–2001. This was accompanied by an improvement in indicators of the competitiveness of manufacturing industry, especially export-oriented industries¹⁴. Nevertheless, effective protection rates in agriculture and manufacturing remain quite high, at around 14–15%¹⁵. Dispersion also remains high.

The post-liberalisation experience however did not evolve as expected. Exports expanded but not as fast as imports, and have become largely concentrated on semi-conductors and electronic components. The agricultural sector's growth remains highly variable, while manufacturing has not expanded as expected. In fact, the respective employment shares of agriculture and industry have steadily declined since 1980¹⁶. In addition, increased imports have not compensated for the lower tariffs, reducing customs revenues from 5.1% of GDP in 1995 to only 2.4% in 2003, especially in the face of smuggling and valuation fraud.

This is partly explained by agriculture's continuing vulnerability to weather shocks and poor underlying productivity, as weaknesses in infrastructure and policies (e.g., access to credit, research and extension, alternative non-farm activities) have yet to be fully addressed. Manufacturing competitiveness¹⁷ has likewise suffered from a difficult investment climate, and small firm constraints in accessing financing, technology (e.g., lack of information on product standards development, lack of technical skills), inputs (i.e., lack of strong awareness of good supply chain management practices) and markets (e.g., constrained by poor transport and communication infrastructure, lack of market information). Poor backward linkage (sourcing of raw materials) and integration of the supply chain (problems in processing, packaging and distribution) further characterize the industrial set-up.

Such problems, together with the negative perceptions engendered by the contagion from the Asian crisis, have produced in recent years a marked change in government sentiment towards globalisation, with recent administrations calling for a “re-think” of such policies. There is a growing belief that the current multilateral rules are steeped in favour of and are abused by developed countries. The Philippines also faces difficulties in the implementation of its obligations and in making full use of its rights under the WTO, particularly in the fields of SPS, product standards, trade defense and customs valuation.

At the WTO negotiations in Cancun in 2003, the Filipino delegation aligned itself with the G-21 and strongly supported its call for the abolition of agricultural subsidies provided by

¹³ This paragraph draws heavily from the WB Discussion Brief, *Sustaining Trade Liberalization*, June 2004.

¹⁴ The ratio of the domestic resource cost to the shadow exchange rate decreased from 1.5 to 1.2 between 1988 and 1994 (Pineda, Virgie 1997. Effects of the uniform five percent tariff on manufacturing. PTTAF-PSC, Tariff Commission and Philippine Institute for Development Studies, Project 95-04).

¹⁵ Effective protection rates for machinery, are around 4% while those for food are nearly 32%.

¹⁶ Ramon Clarete, *Effects of Trade Liberalization in the Philippines: Ex-Ante versus Post Trade Reform Assessment*, January 2005.

¹⁷ The country's ranking in world competitiveness surveys has continually slipped over the years from 12th place out of 30 countries in 1999 to 22nd place in 2003¹⁷).

developed countries and opposed negotiations on Singapore issues; to date it remains cautious on the Trade Facilitation negotiations. The Philippines has indicated though that the multilateral trading system remains its priority.

Regional Integration

The Philippines has been lagging its neighbours in terms of both commitments to AFTA and its implementation¹⁸. The Philippines also appears broadly sceptical of the rush to FTAs among its Asian neighbours, although as part of ASEAN it is participating in the ASEAN RTA/EPA negotiations with Japan¹⁹, China, South Korea, India, Australia and New Zealand. It has expressed preference for a more 'deliberate pace' of integration acknowledging that the Philippines is not quite as fast in restructuring its economy as other countries in ASEAN. It seems to be more active in pushing for the sub-regional East ASEAN Growth Area between Brunei, Indonesia, Malaysia and the Philippines, which is seen as a potentially effective instrument for the development of the southern island of Mindanao, seat of the Muslim insurgency. There also seems to be great interest on an FTA with the US. Taiwan has also initiated a joint study on an FTA with the Philippines, although this may prove to be politically infeasible even if economically attractive. The Philippines has also been participating in the Transregional EU-ASEAN Trade Initiative (TREATI), where it has been agreed to fast-track dialogue and regulatory cooperation on six priority areas: sanitary and phytosanitary rules on agro-food and fishery products, standards on electronics and forestry as well as horizontal co-operation on investment and trade facilitation.

EU-Philippine Trade Relations

EU is Philippines' 4th largest trading partner accounting for 14% of total trade, next to US (23%), Japan (18%), and ASEAN (15%). During the past decade, EU-Philippines overall trade has increased almost fivefold, from €2.7 billion in 1990 to a peak of €13.3 billion in 2000 but has been declining since then to €9.8 billion in 2003.

EU is 2nd largest market for RP exports accounting for some 18% on average, next to the US (30%) in the period 1995-2003. RP exports to the EU have increased almost sevenfold between 1990 and 2000 (from €1.3 billion to €8.9 billion), but has declined since then to €6.5 billion in 2003. RP exports declined again by 10% in 2004(Jan-Oct).

Almost 60% of the Philippine exports to the EU over the period 1995-2003 consisted of computer components and parts; and electronics and electrical equipment, whereas agricultural exports accounted for around 7% only. Textiles and clothing account for 6% while jewellery account for 3%.

The Philippines is the 16th largest user of the EU GSP scheme, from which it benefits under the general arrangements. Philippine GSP exports increased to some €600 million in 2002, from €521 million in 2001. The utilisation rate has also increased to 43% in 2002 from 36% the previous year, although it remains below average and there are large variations in utilisation between products and sectors. Philippines' tariff preferences have been restored for Sector X (fats, oils and waxes), with effect from 01.01.2005 by virtue of Council Regulation (EC) No. 2211/2003.

¹⁸ World Bank, *Sustaining Trade Liberalization*, Discussion Brief, June 2004.

¹⁹ Bilateral agreements are also being negotiated in line with the ASEAN-Japan EPA Framework.

The EU is the 4th largest supplier of Philippine imports, accounting for 10% on average, as compared to the Japan (20%), US (20%), and ASEAN (15%) in the period 1995-2003.

The Philippines is a small but fast growing market for the EU. Less than 1% of EU exports is bought by the Philippines. However, EU exports to the Philippines increased almost fourfold between 1990 and 1997 (from €1.3 billion to €5.1 billion). EU exports have suffered from the effects of the Asian Crisis though and stood at €3.3 billion in 2003. In 2004(Jan-Oct), EU exports increased by some 4%.

Almost 55% of EU exports to the Philippines over the period 1995-2003 consisted of electronics, telecommunications, & electrical equipment; and power generating machines, mechanical appliances & computer-related items. Agricultural exports accounted for some 8% only. Other important exports include aircraft & parts (6%), metal & metal products (4%), and pharmaceuticals (4%). Automobiles and textiles & clothing account for 2% each.

Since the Asian economic crisis, the EU-Philippines trade balance has been in favour of the Philippines, standing at €3.2 billion in 2003 (4.7% of GDP). The Philippines continues to enjoy a €2 billion trade surplus versus the EU as of 2004 (Jan-Oct).

The bilateral trade relationship is generally good. Most trade irritants concern SPS and standards issues although there has also been a recent surge in circumvention cases, where products of a third country are made to appear as originating in the Philippines. The problems seem to emanate from a combination of Philippine exporters' inability to access, understand and/or comply with various EU SPS and standards regulations, and inadequate Philippine regulatory control systems.

Annex IV Mindanao Trust Fund - Joint Needs Assessment (JNA)

The JNA is a collaborative effort among donors, GoP and other stakeholders aimed at determining the priority needs of the MILF combatants and the conflict-affected communities. The assessment was undertaken by the JNA team composed of 25 local and international consultants, with fieldwork taking place in August/September 2004. The fieldwork initiated the process of local ownership by involving the affected communities in focus group discussions and consultations in needs prioritization including the service delivery mechanisms.

The JNA had four sectoral teams, 1) governance and institutions, 2) rural development, 3) human development, and 4) finance and private sector. Experts on cross-cutting concerns, e.g. gender, environment, peace building, and others, will have to work with the various sectoral teams to ensure their concerns are fully addressed in the sectoral groups.

Major initial JNA findings are as follows:

- The peace process is a continuum. Peace does not start and end at the signing of the peace agreement between the conflicting parties.
- Peace can only be sustained if certain concerns of the conflict-affected communities are properly addressed by the assistance program. These concerns can be clustered into four components, such as:
 - Ø Provision of livelihood or economic opportunities – which stresses the need to provide employment and hence a steady income for the conflict victims;
 - Ø Protection of human rights and the promotion of security and social justice – which pertains to whether people will feel physically secure and protected if they return to their communities;
 - Ø Improvement in the delivery of basic services – where basic services such as education, health and other social services are adequately provided to the communities; and
 - Ø Strengthening social capital/social cohesion – where there are institutions that will enable people to interact so that trust and confidence will be rebuilt and restored.

Peer reviews on the findings and recommendations of the JNA as well as on the proposed implementation plans were undertaken in November/December 2004 and April 2005. The World Bank released the final JNA reports in January 2006.