

## Annex II: The Philippines

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## I. The Philippines MIC specificities

The Philippines are a lower middle income country with a per capita income below the average of this group of countries.<sup>1</sup> Its per capita GNI, however, is slightly above the regional average.

### Democratic institutions and governance

#### *Political system*

The Philippines are a constitutional republic and are classified as 'free' by Freedom House with a score of 2 in political rights and 3 in civil liberties<sup>2</sup> in 2004.

The latest elections took place in May 2004. Elections were held for the President, Vice-President, 12 Senators, Congress and for local government entities. The elections were the fourth after the end of the 21-year rule of Ferdinand Marcos in 1986. Between 1999 and 2001, government politics were erratic, with weak economic growth and poor performance in poverty reduction (World Bank CAS). In 2001, the Supreme Court impeached President Joseph Estrada and brought then Vice-President (and current President) Gloria Macapagal-Arroyo as his constitutional successor into office. Politics are dominated by few influential families; some donors classify the political culture as 'feudal'.

#### *Challenges of government's legitimacy / armed conflicts*

President Arroyo was confirmed in office in the elections in May 2004; however, her legitimacy is questioned by political rivals and the legitimacy of the government is therefore shaky. The government continues to struggle with armed groups, particularly in the Muslim parts of Mindanao (at the same time the poorest region of the Philippines); these groups refer to kidnapping. The new government changed its policies towards the conflict regions from confrontation with rebel groups to peace negotiations ("peace and development" rather than the previous government that pursued a policy of "first peace through military victory, then development").

#### *Rule of law*

Its legal system is based on Spanish and Anglo-American law. The criminal justice system is reported to have weaknesses and torture is occasionally occurring; a moratorium on executions for convicted kidnappers and drug traffickers was lifted (2004). The implementation of the rule of law is judged as below average in the regional context (WBI database 2002).

#### *Government effectiveness*

The World Bank noted a widening 'governance deficit' in 1999 and 2000, understood as a widening of the fiscal deficit to more than double of its planned level and growing accusation of corruption against national leadership. Since 2001 – i.e. the impeachment of President Estrada – the government's ability to manage the economy has improved, e.g. the budget deficit target was met. The Philippine government's effectiveness and regulatory quality are well below OECD countries. When compared to the regional and the income group, they rank around average, but show a declining tendency in the last six years (WBI database 2002). The capacity for policy implementation is weak; particularly land reform is very slow.

#### *Corruption*

Corruption is a serious problem in the Philippines. The country is in position 92 of 133 countries in the Transparency International corruption survey (2003), along with Albania, Argentina, Ethiopia, Gambia, Pakistan, Tanzania and Zambia. The Philippines' control of corruption is lower than the regional average and slightly below the Income group average

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<sup>1</sup> The GNI per capita was at US\$1,020, whilst the average of LIC was at US\$ 1,390 in 2002.

<sup>2</sup> The score ranges from 1 to 7, with 1 representing the ideal case and 7 the worst performance.

(WBI database 2002). The President has created an anti-graft committee to combat corruption and graft of high ranking officials.

## II. Role of EU aid and Millennium Development Goals

The EU (including the EC, Member States and the EIB) account for 8.2% of the overall ODA to the Philippines (1992-2000). The EU as a whole is in fourth position as a donor. If looked at only the grant element of ODA, Japan is the largest donor by far, followed by the USA (19%). The EU accounts for 20% if one sums up the shares of the EC, Member States and the EIB. Given that the total ODA makes up 2% of GDP, the influence of the EC and individual EU Member States and their impact on poverty is very limited in the Philippines.

The Philippine government commits itself to poverty reduction programmes. The impact of these programmes, however, has been negligible in the past. Poverty is reduced only very slowly; yet some donors are active in rural areas with very high number of poor people and governance has gained more attention by donors (the UNDP and ADB leading in this issue).

In the Philippine context, the poverty impact of aid could be enhanced by improving governance. This would mean a serious engagement in political dialogue and support for administrative implementation capacity, e.g. in the case of land reform. Government's will to address corruption and economic oligopolies is crucial with regard to implementation capacity.

**The EU Member States have focused their interventions in the Philippines in the following sectors (3 digit DAC):**

Transport and storage	20.7
Water supply and sanitation	6.0
Agriculture	5.8
Fishing	5.4
General environmental protection	5.2

Projects in relation to governance account for just 3% of all EU Member States' assistance; the sector does not feature among the five most important sectors of EU aid interventions (which account for around 43% of the overall EU assistance to the Philippines). Transport and storage are not declared priority sectors in the country strategies – the Swedish cooperation, however, had positively discussed the possibility of projects in infrastructure that should come on the request of the Philippine government. None of the projects in this area have reported poverty markers with a value of 1 or 2.

Water supply and sanitation is a sector with clear impact on Millennium Development Goals and with potential benefits to the poor population; however, less than a third (30%) of the programmes/projects in this sector have poverty markers 1 or more. The assistance to environmental protection reacts to one of the problematic areas of the Philippines (also with regard to the Millennium Development Goals). The assistance to agriculture potentially targets the poorest regions in the Philippines. The pro-poor impact of these programmes/projects is not self-evident, but higher than in the area of water supply and sanitation: half of them have poverty markers; and 44% of these have poverty markers with the value of 1 or 2.

### Poverty

Poverty reduction in the Philippines has stagnated after initial success. Between 1991 and 1997, the poverty rate fell from 34% to 25%.<sup>3</sup> Data suggest that the incidence of poverty has slightly risen again. The poverty head count US\$ 1-a-day stagnated around 12-13%, while the US\$ 2-a-day was still between 45 and 46%. The income inequality (measured by the Gini

<sup>3</sup> The figures shown in the table refer to a UNDP report and differ from the data of the World Bank Country Assistance Strategy of April 2002.

index) has not significantly changed between 1997 and 2000 and is at 46.1%. Poverty is much higher in rural areas than in the national average (37% as opposed to 12% of the US\$ 1-a-day).

The data on the MDGs for the Philippines is rather patchy. The available data, however, confirms the statement about slow – if at all – progress. The rate of child mortality decreased in the first half of the 1990s. Environmental problems are inter alia reflected in the figures for the forest area. A high population growth rate means additional efforts are necessary to improve the living conditions of the population; population growth was at 2.1% in 2000 and one of the highest in the region.

<b>MDGs</b>	<b>1990</b>	<b>1995</b>	<b>2001</b>	<b>2002</b>
Population below US\$1 a day	..	..	14.6	..
Prevalence of child malnutrition	33.5	29.6	..	..
Net primary enrolment ration	97.5	100	93	..
Percentage of cohort reaching grade 5	..	..	79.3	..
Ratio of girls to boys in primary and secondary ed (in %)	97.2	98.8	102.3	..
Under 5 mortality rate (per 1000)	63.0	50.0	40.0	37.0
Immunisation, measles (% of children under 12 months)	85.0	72.0	75.0	73.0
Births attended by skilled health staff	..	52.8	58.0	..
Prevalence of HIV female	..	..	< 0.05	..
Forest area (% of total land area)	22.4	..	19.4	..
National protected areas (% of total land area)	..	4.9	4.9	5.7
Access to an improved water source (% of pop)	87.0	..	86.0	..
Access to improved sanitation (% of pop)	74.0	..	83.0	..

Source: World Development Indicators database, April 2004

### **III. EU Country Strategy Papers**

#### **3.1 European Community**

The EC's Country Strategy Paper for the Philippines (2002-2006) was signed in March 2002. The CSP 2002-2006 provides the rationale for EC cooperation with the Philippines (NIP 2002-2004). It refers to the Philippine Government's Medium Term Development Plan (MTDP) 1999-2004, which was under revision when the CSP was written. The MTDP is seen as ambitious; EC assistance aims at supporting the Philippine Government to implement the plan and increase chances to achieve its goals. The Millennium Development Goals (MDGs) are not mentioned.

#### *EC objectives*

The CSP refers to the overall goal for cooperation as given by the EC treaty ("sustainable development") and in the ALA regulation of 1994. Reference is made to the cooperation agreement with ASEAN (May 1980). Listed priorities for the relations with the Philippines are (i) peace and security, (ii) trade and investment, (iii) sustainable development and poverty alleviation, (iv) democracy, good governance and the rule of law, (v) partnership and alliance, and (vi) raise the EU's profile in Asia.

#### *Country Analysis: Challenges*

The section with reference to poverty can be found in the analysis the political situation (poverty as a root cause of violent conflicts, ca. one tenth of the sub-section) and social developments (ca. 15 % of the overall analysis section).

The CSP notes that peace in the Philippines, particularly in Mindanao, “depends – inter alia – on the Government’s capacity to address poverty”. The analysis of economic policies notes the difficulties in export industries, very low saving rates, and decreasing FDI. Prices for some domestic food products exceeded world market prices, thereby “harming, in particular, the poorest families”.<sup>4</sup> Noted is high income inequality even by regional standards. Poverty is a rural problem, and access to social services such as health care is a problem. Positive aspects are a relatively good public education system and gender equality. No explicit reference is made to the MDGs.

The paragraph on sustainability of current policies stresses the importance of economic growth for poverty reduction, along the need for greater elasticity (liberalisation and enforcement of competition rules). Infrastructure is one priority of the Philippine government; upgrading is recommended. The key challenges for the medium term are: rural development, the provision of basic social services, macroeconomic stability, infrastructure development and governance (concerns are voiced about corruption).

Overall, the country analysis focuses mainly on macroeconomic policies and government programmes. It rarely draws direct lines from the macroeconomic cooperation to poverty alleviation efforts.

### *Past interventions: Assessment*

This section sums up lessons learnt from EC cooperation with the Philippines. Paragraphs briefly touch on financial and technical cooperation projects, environmental cooperation, NGO projects, human rights and good governance, humanitarian assistance, economic cooperation and S&T cooperation projects. There has been “no specific good governance projects have been funded up to now” (but: death penalty projects). Scant attention is given to poverty reduction (in financial and technical cooperation).

The sub-section on other EU donors’ activities gives a comprehensive overview. The assessment of other donors makes up about half of the section. The CSP also contains an annex on other donors’ activities in improving governance (2 ½ pages). In the assessment of other donors, poverty reduction features more often. Poverty reduction is one point among several others of Japanese assistance (e.g. loans for training of sailors). Noted is the poverty focus of the ADB, which takes poverty reduction as criteria for support (Mindanao is priority). Good governance is also an area of ADB interventions, as with other donors (US, World Bank and Canada). 60% of Canadian resources go into poverty alleviation.

### *EC Cooperation Response: Focal Sectors*

The CSP names two main areas of cooperation: (a) assistance to the poorest sectors of society, and (b) assistance to trade and investment. The general EC’s treaty objectives, i.e. dialogue, human rights, stability and security, are mentioned as “non-focal areas” for cooperation.

(a) The CSP states that poverty reduction is the overall priority. In EC-Philippine dialogue meetings, it was acknowledged that the Philippines “could no longer be considered priority country”. Aid would concentrate on poorer countries in Asia. Three points are made: Support for the poorest regions in the Philippines shall be maintained. While the geographical focus shall be narrowed down (naming Mindanao as priority), sectoral approaches are proposed.

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<sup>4</sup> The CSP takes poverty figures from the Philippine government (32.1% of the population below the poverty line in 1997). These figures differ from World Bank statistics (25.1 % in 1997), as the Philippine national poverty line is higher, due to the more expensive food bundle.

(b) Aid should focus more on economic cooperation for mutual benefit, given the past progress. The CSP names four priority areas for assistance in the trade sector. An integrated trade-sector programme is suggested. In this field, governance and institutional reforms are named as factors for the sustainability of growth. Particular emphasis is laid on competition policy and the labour and social protection policies. The governance section makes up about 50% of the focal point on trade and investment. Other areas are targeted investments and business-to-business contacts.

Other areas of cooperation are (i) human development and rights (named here are good governance, consequences of armed conflicts, and death penalty), (ii) stability and security (particularly in Mindanao and the Cordillera), (iii) cooperation in education, culture and S&T. Three sections (half a page each) on the coherence, complementarity within the EC and with other donors sum up the section on the EU's focal points.

### *National Indicative Programme*

The interventions on assistance to the poorest sectors of society (42 million Euros, 82% of the indicative budget) almost evenly split between consolidation of the rural sector and health sector assistance. Rural sector interventions are justified by high incidence of poverty in rural areas. NGOs, "People's organisations" and local government units are named "as the prime vehicles for reaching the poor". Result of previous programmes has been limited (capital intensive and small number of beneficiaries). Post-project support is seen as necessary for enhanced ownership. The health projects (on HIV/AIDS and on women's health needs) are justified by catering "the poorest sectors of society, those living in remote areas and living below the poverty threshold". The Health Sector Reform Agenda of the GoP is given as framework for possible interventions of the EC (Germany is already supporting elements of the Philippine programme). The focal point 2, trade and investment, accounts for ca. 6% of the indicative budget. There is no mention of poverty reduction, rather of "mutual benefits".

11% (6 million Euros) of the indicative budget is aimed at good governance as a cross-cutting sector. Governance is seen as a link between "improving the quality of life for the poorest sectors of society and creating a business environment favourable to enhancing EU-Philippines economic relations". Suggested key areas of intervention are: support for decentralisation, strengthening the judiciary, support for anti-corruption activities and support for good corporate governance. Key areas of intervention in governance are listed in Annex C (ca. 5 pages). This part particularly refers to the poorest sectors of the society in its justification of intervention in the first three areas (ca. 60 per cent of the annex).

### **3.2 Germany**

The Philippines are one of the focus countries for German development assistance since 2000. However, the *Länderkonzept* (Country Strategy Paper) dates back to 1998 and is only recently under revision. German cooperation identifies four focal areas of assistance with focus countries. Detailed focal area strategy papers are established for the topics of market reform and water/sanitation/waste management. They are similarly structured to CSPs.

The old CSP was unavailable, so this brief summary relies mainly on the *Länderbericht* (Country Report) of 2003, which reflects the usual format of a CSP.

#### *Germany's objectives*

Poverty reduction is named as the overarching goal of German development cooperation with the Philippines. "Promotion of employment-oriented growth is supposed to contribute to the achievement of this objective. This approach corresponds to the objectives in the Philippine development agenda". Strengthening the regional and communal planning and decision-making processes is also named as a goal, as is conflict resolution in Mindanao.

### *Country Analysis: Challenges*

The core problems of the Philippines are identified as (i) poverty, (ii) macro-economic problems, (iii) environmental degradation and (iv) internal conflict.

(i) Impermeable social structures and consequently highly unequal income distribution is named as one area of one core problem of the Philippines. Poverty is mostly spread in rural areas, most highly so in Mindanao (poverty rate of roughly 80 %) and in Visayas (around 50 % below the poverty line). For reasons for the high rate of poverty, the World Bank is cited, giving high dependence on agriculture, the dragging implementation of the agrarian reform, absent social security provisions, as well as the deficient education and training system.

(ii) Under economic problems, the low FDI and saving rates are mentioned, plus the high unemployment rate (of 11-18%). Given the high population growth, increased economic growth and new employment are necessary. The unemployment rate is lowered by widespread migration, both internally and internationally.

(iii) Environmental problems are having an impact on large proportions of the population. Deforestation has led to erosion and the lowering of the groundwater level. In the maritime areas, mangroves, coral reefs and fish stock are reduced, particularly the latter negatively affecting the livelihood of the population. Fresh water and soil pollution are increasing problems in the urban centres. Natural disasters (volcanoes, earthquakes and typhoons) are quite frequent.

(iv) In Mindanao, Moslem extremists are fighting the government for 30 years now. The peace deal with the Moro National Liberation Front (MNLF) in 1996 led to a split in the organisation; one part is continuing the fight as Moro Islamic Liberation Front (MILF). Peace talks with the MILF have led to a shaky ceasefire in 2001 (renewed in 2003). The group of Abu Sayyaf is qualified as a criminal group, devoid of ideological motives, and financed by kidnapping. In many parts of the country, the Communist Party is leading an armed fight. The government is also struggling with parts of the army, an important force in the country.

### *Germany's Cooperation Response: Focal Sectors*

German focal sectors in the cooperation with the Philippines are (i) economic reform and establishment of a market economy, (ii) Health, family planning and HIV/AIDS prevention, (iii) environmental protection and sustainable resource management, and (iv) water/ sanitation/ waste management.

The regional focus of German cooperation is on the Visayas Region (with possible extension to Mindanao, if security permits). The programme on poverty reduction in Samar is covered by a special fund on the Action Plan to 2015. The special fund on the fight against terror provided for a project in Mindanao in 2002, which was carried through in 2003.

The sectoral focus "is directed towards the Philippine focal areas, which are identical with focus areas of German cooperation". A highly diverse civil society offers good cooperation conditions for German NGOs. The Philippines are also a focus country for German Church Cooperation.

### **3.3 Sweden**

Swedish cooperation with the Philippines goes back to the 1980s both in the areas of public sector cooperation and NGO engagement. There is no indication on when the CSP was set up. Its period is given as January 1 2001 – December 31 2005.

#### *Sweden's objectives*

Two goals are identified. Swedish cooperation aims to contribute (i) to the sustainable use of natural resources from a poverty perspective, and (ii) to the strengthening of democratic governance and the civil society. These objectives are developed against a strategic

background and Sweden's overall development cooperation objectives. The latter objective is predominately set up for cooperation of Swedish NGOs.

### *Country Analysis: Challenges*

The section is subdivided into (i) political developments (1 page), (ii) development problems (2 ½ pages), and (iii) Mindanao (1 page). While the political development section restrains itself largely to politics with some criticism of the domination of the traditional elite, the development section picks up more on the personalised political culture. It notes the lack of an autonomous civil service culture and the relative economic position of the Philippines in the region. Corruption, inefficient tax collection and dependence on foreign capital are named as problems and improvements in governance are demanded, so as to create internal confidence and competitiveness. The Philippines' lag behind the regional poverty reduction is attributed to poor macro-economic policy, the deficient political system and the high inequality in income distribution. "The growth structure means that poverty levels decline in Greater Manila during periods of intensive growth, while remaining relatively unaffected in rural areas". The agrarian reform was attempted within a framework of democratic regulations and has proven to be "long", "expensive", and "complicated". Gender equality is legally achieved, practice is different, though. HIV/AIDS is not yet an epidemic in the Philippines. On Mindanao, the CSP states that so far, self-rule has led to 'misrule'. In the Mindanao context, other donor activities are cited (World Bank, EC, UNDP, USAID) that target re-integration of ex-guerrillas.

The section is drawing a larger picture. It focuses very much on the political and economic framework, with little or no explicit reference on the particular interests of or challenges to poor people or pro-poor interventions.

### *Assessment of Past Interventions*

Past cooperation has had pretty similar goals to the current paper, but included also the aim to contribute to "strengthening the exchange between Sweden and the Philippines". Principle forms of support were technical cooperation, NGOs, international courses and credits. Planning was at SEK 25 million annually (excl. credits and NGOs). Private sector support was phased out during the previous CSP period (1997-99).

Critical points mentioned: Goals were defined too broadly (lack of priority sectors) and conflicts of interests were an issue, primarily between goals and cooperation forms. It has been difficult to combine long-term and reactive approaches.

Swedish aid is too limited to make an assessment of the overall impact it has had. Some topics are revised, though: (i) *environment* – acquired considerable significance, with partners in Manila and Mindanao, (ii) *human rights/democracy* – largely left to NGOs, which made valuable interventions, the assessment claims, (iii) *poverty* – only indirectly addressed, as "most projects have had other goals than directly helping to alleviate poverty among the poorest groups", (iv) *conflict-management in Mindanao* – support directed via UNDP. So far, "there has been no demand for contract-finance technical cooperation that combines the conflict and poverty perspectives".

"Because of inadequately formulated goals and measurable monitoring indicators it has not been possible to evaluate the extent to which the goals have been achieved. The problem is serious since it means that an important assessment factor is missing". Poverty reduction does not feature high on the list.

### *Sweden's Cooperation Response: Focal Sectors*

The broad outline of the two Swedish focal sectors can be found under "objectives". The section on the response to the challenges commences with the Philippine Development Plan 1999-2004. Its overall long-term goal is "poverty reduction through sustainable development and wider income distribution". For its achievement, tax collection, savings and social security systems will have to be addressed. Also crucial is peace and stability in Mindanao.



The CSP evaluates the GoP Programme hesitantly, pointing out that previous obstacles in the pursuit of the formulated policy remain in place. Future conflicts over resources are seen as possible.

Under the heading “Strategic issues”, Swedish reaction to the Philippine endeavour is dealt with. It stresses the limited influence of Swedish assistance in the generally well coordinated donor community. No sectoral responsibility should be taken, as the scope of development assistance is not broad enough. Focus should be on selected areas and instruments, in accordance with the Asia strategy, i.e. “enabling the development of mutually interesting co-operation”. Instruments should be contract-financed technical co-operation and credits, “both forms require the Philippine partner to identify problems and solutions without Swedish interference”.

Comparative advantages of Swedish assistance are seen in “such areas as the sustainable use of natural resources”. Support for good governance is a long-term engagement, as impediments are largely rooted in a feudal system, insufficient competence and capacity. Restricted Swedish resources should be used in the administrative sector, and CSO support via NGOs. The support for the Mindanao peace process – if the process is successfully continued – should be considered. Infrastructural projects of the Philippine government could lead to more contract-financed technical co-operation, “not least in the environment sector”.

### *Sweden’s Programme*

There is no particular programme other than responding to GoP requests (see above). Administrative resources are named (1/3 of a SIDA post for contract-financed technical co-operation, approx. one full time person for the overall development cooperation).