

Philippines Australia
Development
Cooperation Strategy

2004 – 2008



Australian Government
AusAID

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Abbreviations and Acronyms

ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
AFP	Australian Federal Police
AFTA-CER	ASEAN Free Trade Agreement – Closer Economic Relations
AMB	Activity Monitoring Brief
AMC	Australian Managing Contractor
ANCP	AusAID-NGO Cooperation Program
APEC	Asia Pacific Economic Cooperation
ARMM	Autonomous Region in Muslim Mindanao
ASEAN	Association of South East Asian Nations
AusAID	Australian Agency for International Development
BEAM	Basic Education Assistance for Mindanao
CG	Consultative Group
CIDSS	Comprehensive and Integrated Delivery of Social Services
CPS	Country Program Strategy
DILG	Department of Interior and Local Government
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FMD	Foot and Mouth Disease
GDP	Gross Domestic Product
GNP	Gross National Product
GOP	Government of the Philippines
GSL	Government Sector Linkages
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
IFI	International Financial Institution
KALAHI	Kapit-Bisig Laban sa Kahirapan
LAMP	Land Administration and Management Project
LGU	Local Government Unit
MDG	Millennium Development Goals
MILF	Moro Islamic Liberation Front
MNLF	Moro National Liberation Front
MOU	Memorandum of Understanding
MTEF	Medium Term Economic Framework
MTPDP	Medium Term Philippine Development Plan
NEDA	National Economic and Development Authority
NPA	New People's Army
NSCB	National Statistical Coordination Board
NGO	Non-Government Organisation
PACAP	Philippines-Australia Community Assistance Program
PAGF	Philippines-Australia Governance Facility
PALS	Philippines-Australia Local Sustainability program
PAQTVET	Philippines-Australia Quality Technical Vocational Education &

	Training project
PATSARRD	Philippines-Australia Technical Support for Agrarian Reform and Rural Development
PATVEP	Philippines-Australia Technical and Vocational Education Project
PNP	Philippine National Police
PO	People's Organisation
PRAG	Program Review and Advisory Group
PRMDP	Philippines Regional Municipal Development Project
PROBE	Project on Basic Education
PSU	Program Support Unit
QAP/QAC	Quality Assurance Panel/Quality Assurance Contractor
RPMES	Regional Project Monitoring and Evaluation System
SEER	Sector Efficiency and Effectiveness Reviews
SMT	Simplified Monitoring Tool
SPS	Sanitary and PhytoSanitary
TAG	Technical Assessment Group
TESDA	Technical Education and Skills Development Authority
TVE	Technical and Vocational Education
WHO	World Health Organisation
WTO	World Trade Organisation
UN	United Nations
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund

Map of the Philippines



Executive summary

Overview

Australia has provided aid to the Philippines since the 1950s. Under the previous Country Program Strategy (1998 to 2003), we identified the rural poor of the southern Philippines as the primary target for our assistance. That Strategy focused on the four livelihood areas of income, health, environment and education, with poverty, equity and governance as cross-cutting concerns.

This new Country Program Strategy builds on past experience and reflects our assessment of current contributors to poverty in the Philippines. In close collaboration with the Government of the Philippines (GOP) and other donors, we will endeavour to advance the national interests of Australia and the Philippines by contributing to poverty reduction, sustainable development and stability in the Philippines. We will do this by focusing on three themes: economic governance; security and stability; and rural poverty in the southern Philippines. Australian support for basic education and training will be significantly expanded during the Strategy period. Further assistance will be provided in support of Mindanao peace processes and to build counter terrorism capacity. Our existing aid activities, including governance and community assistance programs, will be overhauled in line with the new strategic directions. New activities will be designed to address priority development constraints in selected provinces.

We will introduce new program-wide review and advisory mechanisms to ensure the continued appropriateness of strategic directions and ensure individual aid activities are contributing to higher-level program objectives. Implementation of the Country Program Strategy will be subject to annual review.

Context

Despite generally favourable human development indicators, the Philippines has not matched its economic potential. Lack of sustained growth over the past 30 years has seen the Philippines lag behind the poverty reduction achievements of many of its East and South East Asian neighbours. Its real per capita GDP was overtaken by Korea and Taiwan in the 1970s and by Thailand in the 1980s. While recent growth rates have stabilised at 3 – 4.5 per cent, the effect on per capita income is minimal because population is growing at nearly 2.4 per cent. Real GDP per capita was lower in 2000 than in 1982. In addition, the Philippines has one of the highest levels of income inequality in Asia.

The GOP is struggling to reduce its budget deficit, which has been growing despite severe restrictions on government spending. Without a sustained improvement in revenue

performance, cuts to budget allocations may seriously affect provision of essential infrastructure and social services.

Poverty incidence was estimated at 34 per cent of the population in 2000, up from 33 per cent in 1997. Around three-quarters of the poor live in rural areas, mostly in the southern Philippines (Mindanao and Visayas). Poverty incidence is particularly acute in the Autonomous Region in Muslim Mindanao (ARMM). Poverty is closely correlated with low functional literacy, low school enrolment and low life expectancy.

A myriad of policy, structural and institutional impediments constrain development in the Philippines. The Philippines ranks equal fourth in Asia in terms of corruption perceptions. Tax revenues are declining. The banking system is under stress from non-performing loans. Devolution of functions from central to local government has been patchy, with planning processes, resource flows and capacity building generally not matching the legislated changes in responsibility. Agricultural and trade policy constrain agricultural development, while failure to address population issues seriously undermines poverty reduction efforts. Presidential, national and local elections are due in May 2004. Both the lead-up and aftermath are likely to be characterised by significant disruption to normal bureaucratic functions and policy implementation.

The fragile security situation is another major concern which is seriously undermining development efforts. Allegations of links between separatist militant groups in Mindanao and international terrorist networks has brought the Philippines sharply 'onto the radar screen' following September 11 and the Bali bombings. But the environment has long been volatile, with a long history of conflict in Mindanao, insurgency across the nation by the New People's Army and a significant increase in banditry and kidnap-for-ransom activity.

Aside from governance and security issues, the main constraint to rural poverty reduction is inadequate access to, and quality of, basic services. Related to this, human capital is poorly developed in rural areas. Basic education is a particular concern, given its long term impacts on individual income-earning potential and, more broadly, national economic development and stability.

Common interests

Australia and the Philippines share common interests in reducing poverty, achieving sustainable development and improving stability and security in the Philippines. Economic stagnation and continued high poverty incidence in the Philippines would have significant ramifications for regional prosperity. The persistence of security problems in Mindanao and other parts of the country is of continuing concern for both governments, particularly given apparent links to transnational crime networks. Mutual interests are reflected in the recent signing of a bilateral Memorandum of Understanding (MOU) on Cooperation to Combat International Terrorism.

The aid environment

International aid agencies have a sizeable presence in the Philippines and donor interest remains high. Australia consistently ranks among the top five bilateral grant aid donors. From the Australian perspective, the Philippines program receives the fourth largest share of our bilateral aid.

The large number of donors makes for a complex environment for donor activity, and coordination between donors and between the donor group and government remains a major challenge. Annual consultative group (CG) meetings, GOP/ donor working groups and bilateral dialogue on specific policy issues and aid activities all help strengthen working relationships.

Recent World Bank and ADB program reviews highlighted the difficulties of achieving sustained impact from aid interventions in the Philippines. Australia's experience has been mixed. Our strongest achievements have been in education (basic education, technical/vocational training and postgraduate scholarships). Co-financed interventions targeting land administration reform and control of foot and mouth disease have also had major impacts. We have provided significant support to the Mindanao peace process through the UN multi-donor program. Our governance program has resulted in specific achievements in areas as diverse as local government revenue generation, competition policy, Supreme Court benchbooks, corporate governance and journalism. At the local level, our community assistance program has benefited around 250,000 poor people, predominantly in rural areas.

On the other hand, some Australian aid program efforts to stimulate rural development have been stymied by the lack of a supportive policy and institutional environment. This experience has highlighted the importance of addressing rural development objectives through a combination of broader governance interventions as well as local-level activities.

Work at the local level is also complicated by the impacts of the somewhat incomplete decentralisation process. Opportunities exist to help improve the financial and planning links between various levels of government, as well as to develop models for the strengthening of individual local government units. However, replication of successful pilot interventions is by no means automatic. It requires explicit consideration in activity designs, as well as efforts to generate support among a range of partners.

The Australian aid program's focus on raising rural incomes, particularly in the southern Philippines, has meant working in areas prone to conflict and instability. This has provided significant challenges to both aid delivery and monitoring, with some project implementation being severely disrupted. In general, we now seek aid delivery mechanisms which do not involve putting Australian project teams 'on the ground' in insecure locations. Alternatives include subcontracting to local community groups, NGOs and other local

experts, working through the GOP's own systems and structures, and contributing to multilateral or multi-donor programs.

The difficult GOP budgetary situation has been a persistent problem, with shortages or delays in counterpart funds affecting the functioning of project management offices. Potential impacts on longer term sustainability of Australian interventions need to be factored in to program planning.

Strategy directions and objectives

Given the current situation in the Philippines, the shared interests of the Governments of Australia and the Philippines, and the experiences of Australia and other donors, the objectives for the Philippines Australia Development Cooperation Program are as follows:¹

Goal: *To advance the national interests of Australia and the Philippines by contributing to poverty reduction, sustainable development and stability in the Philippines.*

Strategic objectives:

1. *Reduce impediments to broad based growth through stronger economic governance, focusing primarily on*
 - public financial management (accountability, budget processes, revenue collection – particularly in the context of decentralisation)
 - enabling policy environment for private sector development (addressing constraints to trade and investment);
2. *Improve security and stability in the Philippines, through*
 - counter-terrorism capacity building (law enforcement, border control, port security, regional cooperation) support for Mindanao peace processes (providing incentives to achieve and maintain peace; humanitarian and emergency assistance to mitigate the impacts of conflict);
3. *Improve the living standards of the rural poor in the southern Philippines, by*
 - improving the quality of, and access to, education and training (basic education, technical/vocational training, with distance education incorporated as appropriate)
 - addressing local-level constraints to rural income growth and human development (e.g. local government planning and service delivery capability, rural production and marketing, health status) through an area-focused approach in selected provinces, and
 - supporting efforts to reduce the population growth rate².

¹ The hierarchy of objectives is portrayed diagrammatically in Annex A.

² Subject to the GOP adopting a coherent policy approach and taking a lead on population issues, and consistent with existing guidelines for Australian aid in this area.

The three strategic objectives are closely intertwined. Progress on governance and security issues is a pre-requisite for sustainable rural development, while security and stability have major impacts on the environment for private sector activity.

The geographic focus of the Philippines program will continue to be on the southern Philippines (particularly Mindanao).

Strategy implementation

Program outcomes will be achieved through fine-tuning some existing activities, undertaking identification work to develop new activities, carrying out analytical work and engaging in policy dialogue. Delivery options may include stand-alone bilateral projects (through Australian Managing Contractors, local contractors, GOP agencies or NGOs), inclusion in regional projects and co-financing with multilateral or other bilateral donors. There will be heavy reliance on expertise from the local consulting and NGO community.

Program development priorities include:

- an expansion of Australian assistance in basic education, technical-vocational training and distance learning, particularly in the southern Philippines – requiring urgent identification, feasibility and design work and assessment of co-financing options
- further support for Mindanao peace processes – requiring close collaboration with multilateral agencies to develop new or improved multi-donor funding arrangements
- more focused and strategic assistance to strengthen governance – particularly through design and implementation of new governance and human resource development facilities
- fostering relationships between government agencies in Australia and their counterparts in the Philippines through counter-terrorism capacity building and introduction of a new Government Sector Linkages (GSL) mechanism.
- progressing the area-focused approach through further analysis of priority issues and localities, including assessment of options for addressing local-level governance and agricultural development constraints.

Program management

Progress in Strategy implementation will be assessed with reference to a hierarchy of objectives articulated in a results framework. At the activity level, monitoring and reporting mechanisms will be reviewed and enhanced to ensure that outcomes and impacts are recorded and linked to program-level objectives. A Program Review and Advisory Group (PRAG) will be established to assist in program-level monitoring and review, to promote integration and consistency among the various aid activities and to advise on factors affecting the appropriateness of strategic directions. The PRAG will comprise eminent

Australians and Filipinos with a mix of strategic insight, policy awareness and program review expertise. Team leaders of Australian aid activities in the Philippines will meet formally every six months, along with PRAG representatives, to share information on program delivery and strategic issues.

1 Philippines development challenges and prospects

Economic performance

The Philippines is a country with great promise that has not lived up to post-independence expectations. Despite many early advantages, including an excellent education base, quite well-developed civil institutions and favourable access to the United States market, progress in the Philippines has been modest compared to other countries in the region. The lack of sustained growth over the last three decades has seen the real per capita GDP of the Philippines overtaken by Korea and Taiwan in the 1970s and by Thailand in the 1980s. It has also seen the Philippines fail to match the poverty reduction achievements of many of its East and South East Asian neighbours. Despite several favourable indicators – such as life expectancy of nearly 70 years and a national adult literacy rate of over 95 per cent – the ranking of the Philippines on UNDP's Human Development Index (HDI), has declined from 77th out of 173 countries in 2002 to 85th in 2003.

Economic progress in the Philippines has been uneven. Whereas annual GDP growth during the 1970s averaged 5.8 per cent, weak macroeconomic management and inward-looking economic policies stifled 1980s growth, which averaged only 1 per cent a year. Major reform initiatives during the Ramos administration of 1992-1998 stimulated a return to moderate growth (5 per cent annually) and a decline in the incidence of poverty. Unfortunately, just as the country appeared set for sustained higher growth, there was a contraction caused by the dual effects of the Asian financial crisis and a severe El Nino-induced drought.

The Philippines was less severely affected by the Asian financial crisis than most of its neighbours, in part because of earlier progress on financial sector reforms but also because it had experienced little of the boom that preceded the crisis elsewhere. However, a turbulent political period from 1999 to early 2001 contributed to weak economic performance. In January 2001 a popular uprising forced the resignation of then President Estrada. The new Arroyo government inherited a difficult situation, needing urgently to address problems of poverty and unemployment, improve political and economic governance and restore public confidence in the overall system of government. The administration initiated governance and structural reforms and managed to adhere to at least some of its macroeconomic targets. Markets have since stabilised and the economic outlook for the Philippines has improved. The country has regained a modest—though fairly stable— growth rate of 3–4.5 per cent. However, offsetting this is a population growth rate of 2.36 per cent.

Recent growth has been driven primarily by strong consumer spending, boosted considerably by overseas worker remittances (US\$7.2 billion in 2002). The services sector has been growing relatively strongly (5.4 per cent in 2002) in response to increasing deregulation. Manufactured goods now account for over 90 per cent of export value, up from 38 per cent in

1990. This reflects the emergence of the Philippines as a significant producer of electronic goods.

Foreign direct investment (FDI) has not kept pace with overall economic growth. Net FDI as a percentage of GDP was estimated at 1.7% in 2000, one of the lowest in the region and only slightly better than Sri Lanka, Bangladesh, India and Indonesia.

The budget deficit is the weakest link in the Arroyo government's macro-economic performance. The deficit for 2002 reached 5.3 per cent of GDP, up from 4.1 per cent in 2001. The fiscal deficit problem stems largely from the continuous slide in tax revenue (at 12.4 per cent of GDP in 2002 compared to a peak of 17 per cent in 1997). The government's current intention is to achieve a balanced budget in 2009 – three years later than originally targeted. Achieving this will be challenging and will require major reforms. Without a sustained improvement in revenue performance, the government will be unable to maintain a minimum level of public spending to support essential infrastructure and social services. At present, 80 per cent of the budget is taken up by mandatory expenditure, primarily debt servicing, allocations to local government units and public sector wages.

Poverty

An estimated 34 per cent of the population, or 26.5 million people, fell below the national poverty line in 2000 – up from 33 per cent in 1997 (NSCB 2003). Although the incidence of *urban* poverty has increased in recent years, poverty in the Philippines remains predominantly a *rural* phenomenon, with around three-quarters of the poor living in rural areas. Around 49 per cent of rural families are poor, compared to 19 per cent of urban families.

As shown in Table 1.1, poverty incidence is particularly acute in the Autonomous Region in Muslim Mindanao (ARMM) and the Bicol region, with other regions of Mindanao and the Visayas also severely affected. In addition, many of those living just above the poverty line are vulnerable to shocks such as natural disasters and market fluctuations, which can easily push them into poverty.

Table 1.1. Regional Poverty Incidence, 1997 and 2000 (in percent of population)

	Region	1997	2000
Philippines		33.0	34.0
Luzon:	Region I - Ilocandia	37.7	35.5
	Cordillera Admin Region	42.8	38.0
	Region II – Cagayan Valley	32.6	29.7
	Region III – Central Luzon	16.8	20.9
	National Capital Region	6.5	7.6
	Region IV – South Tagalog	26.9	25.9
	Region V - Bicolandia	53.8	56.2
Visayas:	Region VI – Western Visayas	43.2	45.7
	Region VII – Central Visayas	34.7	37.4
	Region VIII – Eastern Visayas	47.4	45.4
Mindanao:	Region IX – Western Mindanao	37.1	44.5
	Region X – Northern Mindanao	43.3	38.7
	Region XI – S Mindanao	37.1	36.5
	Region XII – Central Mindanao	51.6	55.3
	Region XIII - Caraga	51.0	50.2
	Autonomous Region of Muslim Mindanao	55.6	62.9

Source: www.nscb.gov.ph (2003)

Poverty is closely correlated with low functional literacy, low school enrolment and low life expectancy. In the ARMM³, for instance, life expectancy for both men and women is more than ten years below national levels. The maternal mortality rate is 80 per cent higher than for the country as a whole and infant mortality is 30 per cent higher. Both primary and secondary enrolments are well below the national average and the poor quality of basic education severely affects attainment. Adult illiteracy is high, particularly among women. Access to safe water and health care is considerably lower than in the rest of the country.

The pace and nature of economic growth over the past two decades has not been sufficient to translate into better social outcomes. The very high population growth rate makes it difficult to achieve per capita income growth. Real GDP per capita was actually *lower* in 2000 than in 1982. In addition, the Philippines has one of the highest levels of income inequality in Asia: the income shares of the richest and poorest 20 per cent of the population are 55 and 4 per cent, respectively.

The Philippines has signed on to achieving the Millennium Development Goals (MDGs) by 2015 in eight key areas, including eradicating extreme poverty, providing basic amenities such as safe drinking water, achieving universal primary education, promoting gender equality, reducing child mortality and improving maternal health. The 2002 Country Study on MDG achievement (UNDP 2002) highlights the challenges. For instance, for the Philippines to reach the MDG poverty target in 2015 it needs to achieve economic growth rates of 7 per cent or more every year from 2002. This is well above recent growth rates.

³ World Bank (2003).

Chart 1.1 is a simplified portrayal of factors contributing to the persistence of rural poverty in the Philippines. Three key features stand out: governance (policies and institutions); conflict and instability; and other local rural development constraints. Each of these is discussed below.

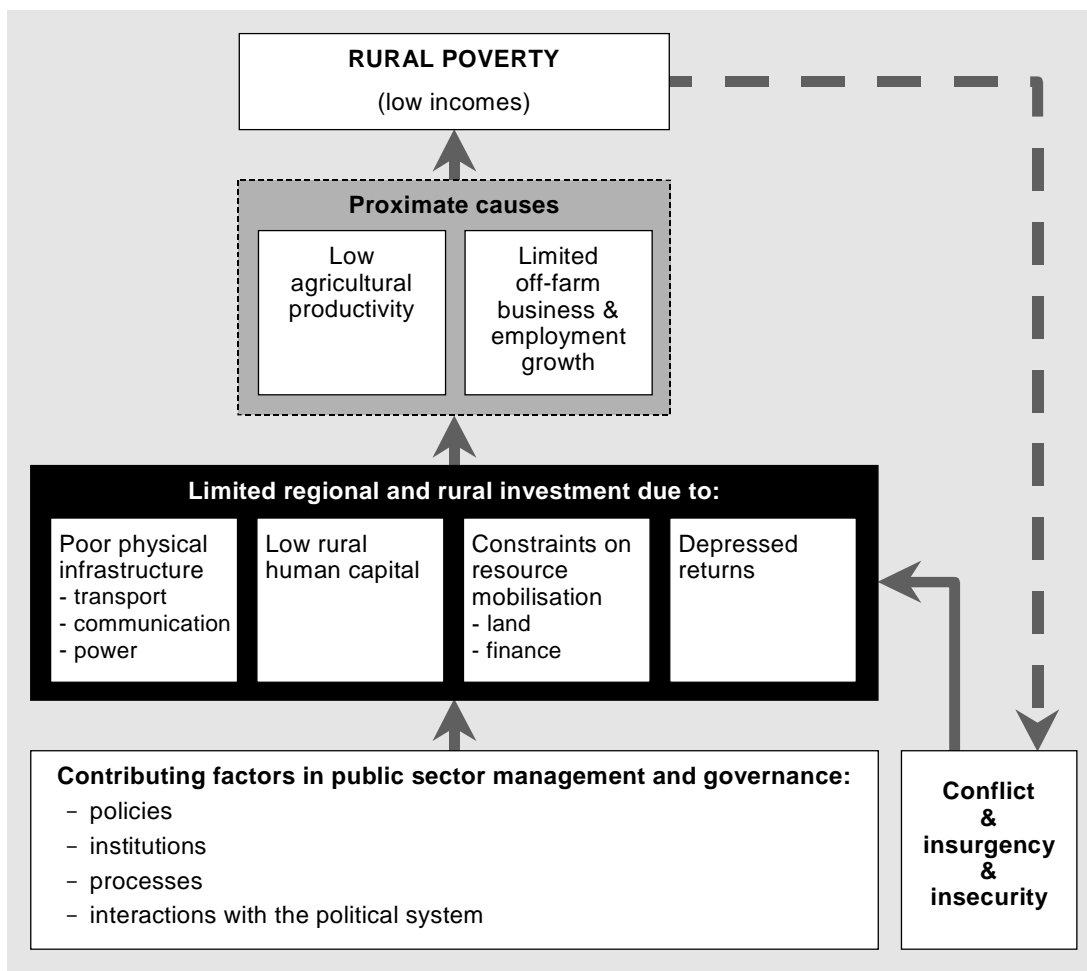
Governance

The Philippines features elements of a strong democracy: a vocal and active civil society, a free press and a system of government involving separation of powers between the executive, legislature and judiciary. On the other hand, many serious policy and institutional impediments hamper sustainable development and poverty alleviation.

Population growth is putting enormous strain on the government's financial resources and its ability to deliver both basic services and economic opportunities. If the current rate of growth persists, the population will double in 29 years. But the GOP remains reluctant to take a lead on population issues, in deference to a powerful Church lobby.

Poor fiscal management seriously affects the extent and quality of public goods and services provision. Inability to enforce tax laws erodes taxpayers' willingness to comply, while the severe decline in tax revenues leaves government chronically short of resources to fund basic services such as health and education. For instance, while education is the largest single budget item, educational expenditure as a percentage of GDP is the lowest in the ASEAN region. Other rural services such as extension and irrigation are also affected, while poorly targeted and inadequate public investment results in poor quality infrastructure. Frameworks for private service provision are not well developed. For instance, continued government sanctioning of private sector monopolies adversely affects inter-island transport.

Chart 1.1 Causes of rural poverty



Budget processes do not adequately serve as a key tool of development policy formulation and implementation. Instead, they exacerbate problems in the exercise of oversight and accountability functions within the executive and legislature. Perceptions of macroeconomic instability reduce investors’ interest in committing funds to the country.

The financial sector remains weak. Non-performing loans have fallen only slightly since their peak during the Asian financial crisis, putting considerable strain on the banking system. Government action is required to create appropriate legal and regulatory frameworks. The availability of rural financial services remains limited in many areas, despite central bank and GOP efforts to provide policy and practical support for microfinance.

Significant policy constraints affect the development of competitive agriculture in the Philippines. The negative effects of protection, regulation and perverse intervention in markets have all been documented at length. Land reform has stalled and ongoing problems with land tenure systems seriously constrain agricultural investment.

On the institutional side, assessments of the performance and structure of government point to a high degree of fragmentation and overlap of policy institutions and processes. The sectoral basis of government departments works against developing coherent economy-wide

and whole of government views. There has been a proliferation of inter-departmental coordination and advisory bodies with variable power and often limited impact. This problem is exacerbated by the fact that policy units within departments are typically under-resourced. Fundamental reform of the civil service is needed to improve professionalism and performance.

The Local Government Code of 1991 provided local government units (LGUs⁴) with more powers, responsibilities and resources. However, devolution from central government agencies to LGUs has been incomplete and in some ways dysfunctional, leaving some key public services in an institutional limbo. While efforts have been made to build LGU capacity, and some LGUs have adapted well to their new roles, others continue to struggle. Preparation and funding of national programs remains highly centralised and not based on LGU planning, severely restricting the ability of LGUs to respond to local needs. The quality of service delivery is also affected by frequent turnover of officials and functionaries, and unconstructive relationships between LGUs and national government agencies. The coexistence of national, regional, provincial, municipal and barangay governments, combined with the separation of the legislature and Executive at nearly every level, leads to a large, inefficient and costly bureaucracy.

The Government acknowledges these public sector factors, and successive plans and policy platforms have laid out intentions to address them. However, dealing with them has proved difficult, and the failure to do so highlights issues of governance and the complex political economy that constrain the scope for making decisive progress. Key among these are an apparent lack of sustained political will and ability to overcome vested interests, a legal and regulatory environment perceived to be rife with corruption⁵, and a politicised and unresponsive public administration.

Presidential, national and local elections are due in May 2004. Disruptions caused by electoral processes and uncertain outcomes could increasingly impact upon the GOP's resolve to persist with its essential policy reforms. Elections in the Philippines also result in widespread turnover of senior bureaucrats, which further interrupts government operations and policy implementation.

Conflict and security

Conflict and lack of security in the Philippines have a number of dimensions and a complex set of causes. Displacement and exclusion of religious and ethnic minorities under internal migration programs, an historic neglect of Mindanao in Philippine government development programs, local disaffection with political structures and more generalised breakdowns in

⁴ The term LGU encompasses three sub-national levels of government: 79 provinces, over 1600 municipalities and cities and over 42,000 barangays (villages).

⁵ The Philippines rated equal fourth in Asia (after Bangladesh, Indonesia and Vietnam) on Transparency International's Corruption Perception Index in 2002.

systems for maintaining law and order all play a role. This has been complicated by lack of consistency in GOP approaches to conflict resolution, and by fragmentation of the leadership and management structures of dissident groups. It has been exacerbated by the alleged involvement of international terrorist networks and other forms of external interference.

Evidence of links between Islamic militants in Mindanao and international terrorist networks has brought the Philippines sharply 'onto the radar screen' following September 11 and the Bali bombings. However, the security situation across the country has long been fragile. Conflict in Mindanao has a history spanning several hundred years. Politically-inspired insurgency by the Communist New People's Army (NPA) has also spanned several decades. In more recent years, there has been a general breakdown in law and order across much of the country, with significant increases in opportunistic banditry, extortion and kidnap-for-ransom activity. The bombing of Davao airport in early 2003 and the military mutiny (or attempted coup) in Manila in July 2003 are recent reminders of the volatile environment, which has the potential to destabilise the governance and economic framework of the country and seriously undermine development efforts. As noted by ADB (2003a), the coup attempt was 'one more unfortunate event that adds to the growing list of disturbances that must damage investor perceptions.' Uncertainty in the lead-up to the 2004 elections is another source of instability.

Conflict in Mindanao

The conflict in Mindanao should be understood against a backdrop of a long history of separatism, the taking up of arms against invading aggressors, dispossession of land,⁶ and the failure of successive national administrations to address social and economic decline. Attempts to achieve peace have been complicated by disagreement among the Moro separatist groups over the fundamental objectives of their struggle. The Moro Islamic Liberation Front (MILF) split from the Moro National Liberation Front (MNLF) in 1977, and a former MNLF member founded the Abu Sayyaf group in the mid-1980s.

Attempts at brokering peace with the MNLF during the 1970s and 1980s failed to bring about much-needed improvements in living standards for the economically, politically and culturally marginalised Muslim population of Mindanao. While an Act was passed in 1989 creating the Autonomous Region in Muslim Mindanao (ARMM), the MNLF was dissatisfied with the level of autonomy granted and only four of a possible thirteen provinces opted to join the ARMM.

In contrast, the Final Peace Agreement signed with the MNLF in 1996 provided a more acceptable political framework for Muslim autonomy, and emphasised the social and

⁶ While at the turn of the century Moros (Muslims) accounted for 75% of the Mindanao population, by the late 1960s this figure had dropped to just 25%.

economic improvement of the fourteen provinces and nine cities with significant Muslim populations. The ARMM, which now comprises five provinces and one city⁷, was the centrepiece of the agreement, but its real autonomy is limited as it remains dependent on the national government for funding and political support.

The MILF and other smaller insurgency groups opposed the 1996 Peace Agreement. Successive governments have engaged in a series of separate peace negotiations with the MILF, which have repeatedly been hampered by outbreaks of serious violence, resulting in the deaths of thousands of people.

In July 2003, following yet another period of increased violence, the MILF and the Arroyo administration agreed to return to the negotiating table. Importantly, the MILF has agreed to focus on achieving rehabilitation of war-ravaged areas and economic development for Mindanao before the resolution of political questions.

With both the MNLF and MILF now pursuing more moderate aspirations of autonomy and economic improvement for Muslim areas of Mindanao, the role of overwhelming poverty in perpetuating the conflict appears to be gaining prominence. Despite concerted efforts and substantial funding, including from international donors, it is increasingly apparent that initiatives introduced under the 1996 Peace Agreement have again failed to bring about the socio-economic benefits that were expected. Possible reasons include some of the general governance constraints identified in the previous section. There have also been significant governance weaknesses specific to the conflict-affected areas of Mindanao. The Council created in 1996 to manage peace and development efforts in the region was abolished in 2002; its successor in that coordination role (the Mindanao Economic Development Council – MEDCO) has only recently been formally identified. International donors and national government agencies alike have been hindered by poor coordination and a development policy void in Mindanao.

The conflict has had a significant impact on poverty and social indicators in affected regions of Mindanao. Over a million people were displaced during the military campaign against the MILF in 2001, and over 100,000 during a more recent (2003) offensive. Indigenous groups inhabiting the mountainous areas favoured by insurgents are particularly vulnerable to the impacts of armed conflict. Children also suffer disproportionately, both through direct involvement in the conflict and because of disruptions to the education system. Schools are the most common venues for internal refugees to be accommodated, so classes are unavailable both for the refugees and the host population. This has had a serious impact on school enrolment rates and educational attainment. Furthermore, many of the combatants are young people who have not had access to schooling over many years.

The extent of poverty in Mindanao makes it an obvious target for development assistance. Yet the security environment there, as in other parts of the country, significantly restricts

⁷ Provinces of Lanao del Sur, Maguindanao, Sulu, Tawi-Tawi, and Basilan (except Isabela City), and Marawi City.

donor activity. As discussed further in Chapter 5, in conflict-prone areas it is generally not feasible to scope, implement and monitor the traditional style of development project involving expatriate advisers 'on the ground'. Alternative delivery and monitoring mechanisms must be devised if such areas are not to be further sidelined from development efforts.

Beyond Mindanao

The Philippines also suffers from the longest running communist insurgency in Asia. The New People's Army (NPA) is scattered across the country and is usually described by the authorities as the major security threat facing the country. A long-delayed peace process is unlikely to deliver a political settlement. According to government statistics, the insurgents number approximately 10,000 in total although this is difficult to verify. Much NPA activity is little more than fund-raising banditry but attacks against security forces and political figures continue. There are doubts about its ideology and unity (poverty and desperation drive the insurgency more than a calculated attempt to overthrow the state) but the insurgents do affect security in regions afflicted by rural poverty, such as many parts of Mindanao, the Eastern Visayas and Southern Luzon. The GOP sees rural development as crucial to tackling the insurgency. The NPA is present in many of the provinces targeted by the aid program, with major implications for the security of projects and personnel.

Rural development

Addressing the governance and security issues discussed above would have a significant impact on the ability of the rural poor to expand their incomes. Of particular importance are government policies that discriminate against efficient agricultural production and marketing and labour-intensive export-oriented production, and factors affecting the

availability of land and finance. Security concerns clearly affect productive activity in many areas.

Other features of the local environment may also be significant constraints. Incomes of people living in rural areas have not grown largely because agricultural productivity has stagnated and because off-farm business and employment opportunities have not grown. People have responded in part by moving to other localities (including overseas) to find employment, and the resulting transfers have improved living standards of those that remain. However, the very poor often lack the resources, information and contacts required to attempt either internal or external migration.

Education and training are critical to expanding income-earning potential. Education indicators in poor rural areas are significantly below national averages. This reflects difficulties with both access and quality. For instance, children from upland villages may face a prohibitively long walk over difficult terrain to reach the nearest public school. Rural school teachers often lack the training and resources needed to deliver quality education,

particularly when classes may contain as many as 80 students. In Muslim areas, many children attend Islamic schools (madaris) which do not teach English, Filipino or other national curriculum subjects; they are therefore unable to pursue further education in the Philippines and are severely constrained in accessing local job markets.

Health problems are a further constraint to rural productivity and quality of life. Debilitating and sometimes life-threatening illness can result from poor sanitation and drinking water quality. Mosquito-borne diseases such as malaria and dengue fever are prevalent in many areas, along with tuberculosis. HIV/AIDS remains largely a hidden problem but some commentators warn that its incidence may be increasing rapidly.

Many LGUs lack the capacity and resources to deliver adequate local services. This affects both human development and rural productivity. Ineffective extension services coupled with poor physical infrastructure affect access to markets for inputs and outputs, resulting in low participation in both domestic and export markets. Resource and environmental factors such as land quality, access to water and incidence of pests, diseases and climatic disasters further constrain productivity.

Action to address local level constraints will have limited impact on poverty or social indicators if broader systemic issues are not addressed. However, involvement at the local level has the advantage of highlighting the impacts of national level issues, as well as providing the opportunity to test solutions on a small scale for possible replication in other similar environments.

2 The policy environment: Philippines and Australia

GOP policies and programs

Key national policy documents released by successive Philippine governments over the past decade have maintained the fight against poverty as a core element of the development vision. The current administration placed poverty reduction at the centre of its agenda with its revision of the Medium-Term Philippines Development Plan (MTPDP) for 2001-2004.⁸

The plan affirms the administration's commitment to 'continue the stalled war against poverty and unemployment' and presents a four-pronged strategy for pursuing this objective (Table 2.1). Poverty is conceptualised broadly, taking into account not only income but its impact in terms of human deprivation, development and quality of life.

The MTPDP recognises that little progress will be made in reducing poverty without sustained and broad-based growth. To this end it notes the importance of ensuring a stable and predictable environment for private sector investment through continued efforts to improve fiscal management and governance. Particular efforts are also to be devoted to strengthening the financial system to facilitate more efficient intermediation of savings into investment.

The GOP has adopted a Medium Term Expenditure Framework (MTEF) and Sector Efficiency and Effectiveness Reviews (SEERs) to improve prioritisation, planning and budgeting. Combating corruption has been identified as a priority. A Presidential Commission for Effective Governance has been established to coordinate reforms, which include a new Government Accounting System, implementation of anti-money laundering legislation and stronger corporate governance requirements. Capital market reforms intended to restore investor confidence include strengthening the Securities Exchange Commission and restructuring the Philippine Stock Exchange.

Constraints to private sector development are being addressed through a range of initiatives, including restructuring and privatisation in the power and transport sectors. A bill is now with Congress to create a single Land Administration Authority, and the President has instructed that 'one-stop-shops' be established in rural areas to streamline land registration processes.

⁸ A new Development Plan is currently under preparation and specific priorities may change after the 2004 election, but poverty alleviation is expected to remain the primary focus for the foreseeable future.

Table 2.1 **GOP Development goals and strategies**

Goals	Strategies
<i>Macroeconomic stability and equitable growth</i>	<p>Reduce vulnerability to macroeconomic shocks.</p> <p>Promote aggregate fiscal discipline to reduce the fiscal deficit. Increase revenues and balance the National Government budget. Improve allocation of public expenditures.</p> <p>Create an enabling environment for trade and industry, including micro-enterprises and SMEs, and for development and promotion of information and communication technology and tourism.</p>
<i>Agricultural modernisation with social equity</i>	<p>Modernise the agriculture and fishery sector by encouraging greater private sector participation supported by public investments focused on public goods and services.</p> <p>Accelerate agrarian reform, promote community-based natural resource programs and reduce environmental degradation through an enabling economic and regulatory environment.</p>
<i>Comprehensive human development and protecting the vulnerable</i>	<p>Expand access to health and family planning services.</p> <p>Enhance social protection for vulnerable groups.</p> <p>Raise the quality of basic education. Improve urban infrastructure, services, and land tenure and access to shelter especially for poor communities. Pursue peace and development in Mindanao.</p>
<i>Good and effective governance and rule of law</i>	<p>Pursue prudent expenditure management. Rationalise and prioritise programs and activities. Provide an environment conducive to competition, efficiency, and equity for sustainable and pro-poor growth. Raise internal revenue effort. Complete decentralisation agenda. Adopt anti-corruption program. Improve peace and order, law enforcement, and the administration of justice. Promote international collective action to uphold the national interest in the community of nations.</p>

Source: GOP 2001, Medium Term Philippines Development Program, 2001-2004

Basic education is another major priority within the overall MTPDP framework. Both quality and access issues are of concern. The Department of Education is implementing a new school curriculum with increased emphasis on the core subjects of Mathematics, English and Science. In July 2003 the President announced the Strong Republic School initiative, which will initially target 500 priority barangays throughout the Philippines. It involves using distance learning and mixed mode techniques to deliver basic literacy modules, primary school subjects and technical-vocational programs, including in local languages. In the ARMM, efforts are being made to improve transferability between the public and Madrasah (private Islamic) schools by making curricula more consistent across the two systems.

The government's most successful anti-poverty intervention has been the Comprehensive and Integrated Delivery of Social Services (CIDSS) Programme, which since 1994 has mobilised communities to define priorities and pool resources from government, civil society organisations and people's organisations to target minimum basic needs. But government expenditures on basic social services remain low, at about 4 per cent of GNP, and the poverty

program has had less success in combining improvements in people's basic capabilities with substantial enhancements of their job and income prospects.

The current administration's strategic framework for poverty reduction is embodied in the Kapit-Bisig Laban sa Kahirapan (KALAHI) Program. This program involves implementing five core strategies in targeted poor communities. The Program adopts a 'convergence approach', whereby national government agencies and a range of non-government stakeholders are involved in poverty reduction. KALAHI operates at two levels. At the policy level, national government agencies and LGUs integrate policies and link these to appropriately designed services to support the anti-poverty strategies. At the program level, focused interventions converge in specific communities based on the identified needs of poor groups. More than 5,300 poor barangays in 40 poor provinces are expected to benefit from the combined KALAHI-CIDSS program, funded by a US\$100 million World Bank loan and a Philippine Government counterpart contribution of US\$82 million.

Anti-poverty programs take a long time to bear fruit, and the politically-driven nature of Philippine government anti-poverty programs almost ensures that the emphasis will continue to be on quick fixes or interventions that provide high visibility and political returns. Implementing effective anti-poverty programs based on the strategy laid out in the MTPDP will require strong political leadership and a genuine commitment to representing the interests of the poor.

Australia's development cooperation policies

Australian Aid: Investing in Growth, Stability and Prosperity

The Australian government's overseas aid program recently acquired renewed policy determination with the release of the 2002 Ministerial Statement, *Australian Aid: Investing in Growth, Stability and Prosperity*. This policy statement reaffirms the objective of Australian development cooperation as being: "To advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development". The geographic focus on the Asia-Pacific is retained.

The Ministerial Statement builds on and draws together earlier policy work on specific sectors (e.g. governance, health) as well as on core development issues. Particularly relevant to this country program strategy are:

- The Poverty Framework (2001), which identified growth, productivity, accountability and vulnerability as key pillars;
- The Peace, Conflict and Development Policy (2002), which advocated enhanced aid program effectiveness in the areas of conflict prevention and peace-building, conflict management and reduction and post-conflict recovery assistance.

These earlier priorities and directions for the aid program remain relevant under the 2002 Ministerial Statement, but have been recast through the lens of its five guiding themes:

- Promoting improved governance across all areas of partner governments and strengthening democratic processes;
- Assisting developing countries to access and maximise the benefits from trade and information and communication technologies (ICTs);
- Supporting stability and government legitimacy through improved delivery of basic services;
- Strengthening regional security by enhancing partner governments' capacity to prevent conflict, enhance stability and manage transboundary challenges;
- Promoting sustainable approaches to the management of the environment and the use of scarce natural resources.

The Statement indicates that Australia's aid will increasingly engage with and be driven by partner governments' own development frameworks. In doing so, it will strengthen partnerships with other international development organisations and promote practical mechanisms to improve donor coordination and dialogue with partner governments.

The policy recognises the problems faced by some developing country partners due to conflict or poor policy settings. It sets out a practical strategy for engaging with poor performing states, both in order to reduce the impact of failed systems on the poor and support government reform.

Countering terrorism

Australia's Foreign and Trade White Paper, released in February 2003, commits Australia to the international campaign to eliminate the global threat of terrorism. A subsequent aid program paper (AusAID 2003) reinforces the 'regional security' theme of the Ministerial Statement, outlining the links between terrorism and poverty and identifying two main areas where aid has an appropriate and useful role in the fight against terrorism:

- building the capacity of partner countries to manage terrorist threats by strengthening counter-terrorist and broader law enforcement capacity, and
- promoting environments conducive to economic growth and poverty reduction to minimise the potential for terrorist networks to develop.

Common interests

Historically, the Philippines has had close ties with the United States and relatively little engagement with Australia. This has been changing, with Australia increasingly recognising that its own security and prosperity are closely linked to the fortunes of developing countries in South East Asia, including the Philippines. The visit to Manila by the Australian Prime Minister in July 2003 is evidence of the strengthening relationship.

The persistence of security problems in Mindanao and other parts of the country is of continuing concern for both governments, particularly in the wake of September 11, the Bali bombing and other recent terrorist attacks in the region. International terrorist networks, drug traffickers and people smugglers are known to take advantage of porous borders between the southern Philippines and neighbouring Indonesian and Malaysian islands. These transnational crime networks pose a direct and serious threat to other countries, including Australia.

In March 2003 Australia and the Philippines signed a bilateral Memorandum of Understanding (MOU) on Cooperation to Combat International Terrorism. Australia and the Philippines had already been working closely together on regional security issues through the Defence Cooperation Program. The Australian Federal Police also has long-standing relations with its Philippine counterparts, further formalised by the signing of an MOU in July 2003. The aid program's long engagement in the Philippines, and in particular its focus on Mindanao, puts it in a good position to complement these other Australian government efforts. Activities which help build capacity to counter terrorism, resolve conflict and build peace are entirely consistent with the aid program's poverty reduction objective. Conversely, aid activities with direct human development objectives – for instance in basic or vocational education – may help mitigate some of the underlying causes of violent conflict. Measures to strengthen systems and structures to combat corruption and promote accountability also play an important role.

The potential contribution of the Philippines to a strong regional economy is another area of mutual interest. Economic stagnation and continued high poverty incidence in the Philippines would have significant ramifications for regional prosperity. Both the Philippines and Australia see benefits in progressing regional trade and economic arrangements, for instance through APEC, ASEAN, the AFTA-CER Common Economic Partnership and the Cairns Group. Trade and development issues are likely to occupy increased attention over the next few years, both in the context of the Doha world trade negotiations and the Philippines' own determination to take advantage of trade liberalisation and global opportunities. While disputes persist over specific market access issues, trade between the two countries remains strong, with merchandise trade now totalling close to A\$2 billion. Close people-to-people links further strengthen the Australia-Philippine bilateral relationship. Between the 1960s and 1990s, Filipinos were one of the fastest growing immigrant communities in Australia, now numbering over 100,000. Filipinos are now the third largest non-European immigrant community in Australia (behind Vietnamese and Chinese). The education relationship is also significant: nearly 700 postgraduate students have received scholarships for study in Australia since 1997.

3 The aid environment

Donor activity in the Philippines

International aid agencies have a sizeable presence in the Philippines and donor interest remains high. The Philippines has more than 20 sources of ODA. In 2003 donor pledges amounted to US\$2 billion, of which an estimated US\$540 million was grant aid. Japan is the largest donor (50 per cent of total donor commitments), followed by the Asian Development Bank (25 per cent) and the World Bank (21 per cent). Australia is a medium sized donor in the Philippines and is placed among the top five bilateral grant aid donors with the United States, Japan, Germany, and Canada.

The large number of donors makes for a complex environment for donor activity, and coordination between donors and between the donor group and government remains a major challenge. Annual consultative group (CG) meetings provide a formal opportunity for the GOP and external assistance agencies to discuss the Government's management of the economy and coordinate foreign development assistance. Outside the formal CG umbrella, several informal GOP/donor working groups and donor discussion groups have been formed to facilitate information sharing and partnerships. For example, Australia is part of a small group of donors which developed joint recommendations on anticorruption actions for the Government's consideration. It is also part of a donor group that jointly supports the peace process in Mindanao, and has recently initiated a donor group on Education.

The National Economic and Development Authority (NEDA) coordinates and reviews ODA flows to ensure consistency with national development priorities. The Medium-Term Philippine Development Plan (MTPDP) and sector or agency medium-term plans serve as the reference points for donor country programming. However, the MTPDP gives limited direction on funding priorities, and aid allocation remains driven largely by supply rather than demand.

The donor community remains concerned about the lack of concrete evidence of sustained program impact and, more importantly, what they perceive to be a lack of sustained political will to institute essential reforms. Both the World Bank and the ADB have encountered significant problems in their programs in the Philippines. A recent review of ADB programs concluded that:

Notwithstanding its considerable development potential, the Philippine economy has remained largely mired in sluggish growth and pervasive poverty...Although the Philippines has been the beneficiary of a considerable amount of development assistance—as well as a moderate amount of foreign private investment—this flow of external resources has not translated into high growth or rapid improvement in the quality of life of its people (ADB, 2003b).

The review also noted:

Given the lack of success of a large number of investment projects, it seems that the ADB lending program has not had a major impact on economic growth or poverty reduction. Poverty remains pervasive and appears to be exhibiting an upward trend in recent years. Similarly, the impact of the ADB program on institutional development has been mixed.

A review of World Bank assistance to the Philippines since 1986 (World Bank 1999) assessed that its track record in key sectors such as agriculture, environment, energy, water supply and sanitation, decentralisation and transport was less than satisfactory. While this was attributed in part to shortcomings in the Bank's analytical support for its program, institutional weaknesses and the difficulties of achieving consensus between the legislative and executive branches of government were seen to have played an important role.

Australia's aid delivery experience

Australia's aid relationship with the Philippines dates back to the 1950s, when Commonwealth countries launched the Colombo Plan to help strengthen the economies of South and South-East Asia. The value of the bilateral program doubled in the late 1980s, to the point where Philippines now receives the fourth largest share of Australian aid to any single country.

Country Program Strategy 1998-2003

The previous Country Program Strategy (CPS) for the Philippines covered the period 1998-2003. The Program objective over that period was to improve the living standards of men, women and children living in poverty in the Philippines and promote sustainable and equitable development. The focus was on the four livelihood areas of incomes, health, the environment and education, with poverty, equity and governance as cross-cutting concerns. The rural poor of the southern Philippines, particularly Mindanao, were identified as the main target for assistance.

In the last few years, the Program has undertaken extensive analytical work to provide a better understanding of the context for strategy implementation and opportunities for Australian aid. A framework for poverty analysis was developed and key local and national level impediments to poverty reduction were identified. The institutional context for reform and policy development in the country was reviewed. Sectoral strategies for rural incomes, health and environment were developed, and scoping studies were conducted in four provinces consistent with the Program's geographic focus (Northern Samar and Bohol in the Visayas and Agusan del Sur and Surigao del Norte in Mindanao).

A Mid-Term Review of the 1998-2003 Country Program Strategy was conducted in 2002. The Review found that the Strategy had served usefully as "a framework within which to search

for suitable areas for support” and that its overall thrust (refined in the light of the work on livelihood strategies) remained broadly appropriate. However, the considerable economic, social and political turmoil in the Philippines since 1998 highlighted issues of program risk management and the need to sharpen the strategic focus towards activities likely to have longer term impacts on poverty reduction. Improving governance, in particular, was identified as an emerging priority for the Arroyo government and fundamental to achieving sustainable development.

Aid program research and analysis highlighted that, in the context of GOP decentralisation, there should be a shift in emphasis by the Program to increased cooperation at the local level. The findings also highlighted the geographically and thematically disparate nature of the activities that made up the Philippine Program at the time. Considerable potential existed for mutually supporting linkages between activities at the local level in each of the livelihood areas. Reinforced by a stronger corporate focus on performance measurement within the Australian aid program, these factors have drawn attention to the need to ensure activities are implemented in a limited number of areas and managed in a cohesive and complementary manner.

While Australia can point to significant achievements from past years of aid to the Philippines, there have also been disappointments and some important lessons have been learned.

Achievements

Australia provided strong support to the Philippines through the aftermath of the Marcos years and its return to the observance of democratic practices and processes. More recently, in the wake of the Asian financial crisis, Australia has assisted economic reform and structural adjustment in the Philippines.

Support for basic education has been one of Australia’s strongest areas of assistance. The Project on Basic Education (PROBE, 1996-2001) focused on improving the teaching and learning of English, science and mathematics at the elementary and lower secondary school levels, benefiting about 76,000 educators and approximately 3.7 million school-aged children in Mindanao. The assistance had a particularly important impact on female teachers and their status within the education system.

More recently, Basic Education Assistance to Mindanao (BEAM, 2001-present) has implemented a range of activities to improve access and quality in three regions (XI, XII and ARMM). BEAM has attracted considerable attention among other donors and GOP agencies as a model for basic education intervention in conflict-affected areas. Over 300 school administrators and principals have received training in school management and planning, the curriculum development efforts of ARMM and regional Departments of Education have been supported, and learning materials have been translated into local languages. BEAM, the

local communities and LGUs have jointly established tribal learning centres in four remote upland villages, allowing indigenous (Lumad) children to attend early childhood classes. Parents and out-of-school youth from poor Lumad, Muslim and Christian communities have been provided with functional literacy and livelihood skills training and have been assisted in developing small enterprises so they can afford to keep their children in school.

Australia has also been active in technical and vocational education (TVE). A TVE project from 1990-94 (PATVEP) strengthened nine TVE schools around the country by providing equipment, training and improved curriculum. It also worked at the national level on curriculum development, in-service training of technical teachers and administrators, preparing and disseminating learning material, organisation development, and strengthening inter-agency linkages. An evaluation of this project concluded that impacts at the local level in particular (in the nine TVE schools) were 'large and significant'. A follow-up project is helping the Technical Education and Skills Development Authority (TESDA) develop a Total Quality Management System and establish an industry led approach to technical-vocational education and training in the Philippines.

At the tertiary level, 667 postgraduate students from the Philippines have received scholarships for study at Australian universities since 1997 in fields relevant to their country's development. These students have achieved very high success rates. An impact study of 276 scholars found positive longer term benefits: all scholars had remained in the Philippines, most were using their new skills with their original sending agencies, and over a third were from the Visayas and Mindanao.

Australian technical assistance for land administration reform has been instrumental in having bills submitted to Congress for the creation of a single Land Administration Authority and reforms to the land titling processes.

Australian funding has contributed to a significant decrease in the incidence of foot and mouth disease (FMD) in the Philippines, including the declaration of Mindanao, Visayan islands, Palawan and Masbate as FMD free.

Australian support for malaria control and prevention in Agusan del Sur Province (Mindanao) has seen the effective implementation of a community-based approach to managing the disease. Key achievements include the training of 980 volunteer Barangay Health Workers and distribution of 28,000 bednets. The project has sought to train 'one health care giver per family' and has developed school curriculum materials to raise the awareness of children. Its success has attracted considerable attention from other donors and the WHO. Based on evidence arising from the project, the Philippines Department of Health has revised its policy on the Use of Combination Drug Therapy.

Australia has been the major contributor to a UN multi-donor program to support the peace process in Mindanao. This has provided basic emergency assistance to over 30,000 internally displaced people, training of over 3000 people in disaster management and training of over

200 peace and development advocates. This experience has highlighted the key role donors can play in sustaining momentum for the peace process.

A range of governance initiatives have been completed in administrative, economic and financial reform, pro-poor policy and programs, justice, civil society and corporate governance. A training manual on local revenue generation and resource mobilisation was developed and subsequently used in training activities across 76 local government units. Other examples include the production of bench books for the Supreme Court, preparation of a competition policy framework for the Tariff Commission, development of a local government monitoring tool for the Department of Interior and Local Government, training on ethics in journalism (including reporting of corruption), and assistance with demutualisation of the Philippines Stock Exchange.

Australia has supported numerous community-based development initiatives aimed at improving the quality of life in poor communities. Since its inception in 1986, the Philippines-Australia Community Assistance Program (PACAP) has funded over 900 small projects benefiting around 250,000 poor people. Most activities have been implemented through local NGOs and People's Organisations (POs).

Lessons

This Strategy reflects an appreciation of the systemic and policy impediments that limit the ability of the Philippines to realise its substantial development potential and to match its neighbours' successes in reducing poverty. In particular, aid program experience and the analytical work undertaken⁹ have highlighted the links between a sound governance framework and interventions that enable the poor to improve their productivity. Even well designed projects at the local level can fail if the policy environment at the national level is inimical to development. Australian assistance should not simply focus on a series of traditional rural development interventions, but must also be concerned about the overall policy environment in the Philippines.

While the program should seek opportunities to help address these impediments, the institutional, constitutional and political context for policy reform needs to be factored in. One element of particular concern in the lead up to the May 2004 elections is that a change of administration in the Philippines can bring with it wholesale changes in the senior levels of the bureaucracy, with a realignment of political affiliations and funding priorities – including support and staffing for specific donor projects – from the national level down to the Provincial and Municipal levels. These forces are almost totally beyond project control or

⁹ Including: strategy studies in rural incomes, health and the environment; scoping studies looking at poverty in four poor provinces in the Visayas and Mindanao; mid-term review of the 1998-2003 Country Program Strategy; reviews of the Philippines-Australia Short-Term Training (PASTT) Facility, the Philippines-Australia Development Scholarships Facility (PADSF) and the Philippines-Australia Governance Facility (PAGF); Philippines Institutional Assessment exercise; a book on the Philippine economy (Balisacan and Hill 2003); and a review of the aid program's experience in devolving aid management to the Manila Post.

influence but represent a major challenge to sustainability. In this context, flexibility needs to be built in at both program and activity level and efforts need to be made to institutionalise reforms, rather than relying too heavily on individual ‘champions’. Donors need also to be wary of individual politicians’ pet projects.

With decentralisation, local-level poverty reduction programs are now the responsibility of LGUs. LGU capacity is often weak and remains heavily reliant on the national government for funding. To strengthen this system, the capacity of LGUs needs to be improved and opportunities explored for local revenue generation and resource mobilisation. Australia can play a catalytic role by developing and demonstrating sustainable and replicable approaches in selected areas. However, it cannot be assumed that ‘successful pilots’ initiated at the local level will automatically be recognised by higher administrative levels and will contribute to reform of policy or practice. Among the requirements for successful replication are appropriate institutional arrangements, influential proponents, openness among partner institutions to experimentation and learning and a specific extension plan in activity design.

The prospects for sustainability of Australian interventions will be assisted by taking more account of Philippine budget realities. Shortage of counterpart funds to finance ongoing and new donor activities, as well as delayed release of funds to project management offices, have been persistent problems. The budget deficit situation continues to be an important constraint to acceptance of new projects, particularly those funded by development bank loans.

In areas prone to conflict and instability, mechanisms of aid delivery and monitoring need to be utilised which do not put Australian implementing teams at risk. Otherwise, progress can be significantly disrupted if a team has to be temporarily withdrawn or even permanently re-located. ‘Remote control’ of activities is possible in some circumstances, but is clearly not ideal and would be extremely difficult without an initial period ‘on the ground’ to build relationships, develop systems and get activities underway. Alternatives include subcontracting to local community groups, NGOs and other local experts, working through the GOP’s own systems and structures, and contributing to multilateral or multi-donor programs.

Collaboration with multilateral agencies is not without its challenges. Each agency has its own processes, agendas and timeframes. As noted above, counterpart funding is a particularly serious consideration for loan-funded projects, affecting both GOP and Bank priorities and adding an element of risk to Australian-funded technical assistance components. Reliance on multilateral reporting mechanisms can also be frustrating for a bilateral donor like Australia. In some instances it has proven difficult to obtain timely information on implementation progress and the uses and impacts of Australian contributions – information essential to meet our own Program reporting obligations.

4 Strategic directions and objectives

Overview

Priority areas for engagement by the Australian aid program have been identified on the basis of the analysis presented in previous chapters. This has taken account of stated GOP priorities; Australian interests, expertise and past experience; and extensive earlier analytical work including a poverty analysis, assessments of sectoral, socio-political and institutional issues and local situation analyses. On this basis, objectives for the Philippines Australia Development Cooperation Program, shown diagrammatically in Annex A, are as follows:

Goal:

To advance the national interests of Australia and the Philippines by contributing to poverty reduction, sustainable development and stability in the Philippines.

Strategic objectives:

1. Reduce impediments to broad based growth through stronger economic governance
2. Improve security and stability in the Philippines; and
3. Improve the living standards of the rural poor in the southern Philippines.

These objectives reflect key Australian Government interests in helping the Philippines improve its economic performance and deal with issues of conflict and instability that have the potential to affect security in the Asia-Pacific region. They recognise longstanding difficulties in creating a policy and institutional environment that facilitates sustained and broadly shared growth. These objectives also reflect a continued program concern to help achieve sustainable reductions in poverty in the Philippines, especially in the south, where poverty and conflict are closely intertwined.

The aid program will work towards these objectives through policy engagement and program activities that address key policy, systemic and institutional impediments constraining the efforts of the poor to rise out of poverty.

Recognising the challenges

The development challenges outlined in previous chapters are far too large for Australia's aid program to have a significant impact on — but they are the reality with which the program must engage. Accordingly, the program will strike a balance between helping improve the enabling environment (by supporting the reform agenda and improvements in the policy context, institutional capacity and the skills base) and tangible and direct improvements in the well-being of the poor.

Issues of program size, the inter-relatedness of development constraints at the local level, and the stronger corporate focus on performance measurement within Australia's aid program argue for a tighter geographical focus. But the strategy also recognises that local level success will often be contingent on addressing national and regional level constraints, and the program will engage with such constraints where they are critical to local success and amenable to Australian aid intervention. It will also support the work of other donors who may be better placed to lead engagement on certain national level issues.

The program will continue to support existing GOP priorities, systems and programs. However, this is complicated by uncertainty in the lead up to the May 2004 elections, possible discontinuity in GOP programs and priorities, and far-reaching institutional disruption if a new administration comes to power. The strategy is also framed against a highly uncertain internal security environment that directly impacts upon the nature and style of assistance that Australia can provide. This strategy therefore needs to be sufficiently robust and flexible to accommodate shifting domestic priorities and changing internal circumstances, while recognising that real impacts will only be attained through long-term resource commitments.

Objective 1: Stronger economic governance

Economic growth is unquestionably the key contributor to poverty reduction.¹⁰ However, growth by itself is not sufficient to guarantee that benefits will reach the poor. Good governance – including sound policy settings, capable economic management, effective and accountable institutions, democratic and participatory government systems and internal stability – increases the prospects for achieving both sustained economic growth and poverty reduction.

Analysis of the Philippine economy and institutional environment suggests three fundamental pre-requisites for economic growth :

- GOP financial position improved and protected (within the context of decentralised government systems)
- Macro-economic policy settings support growth and economic stability
- Enabling environment (including internal security situation) supports private sector development

Public financial management

Better, more accountable management of public expenditures, revenues, and debts are critical to curb corruption, reduce waste, and improve the volume and quality of public

¹⁰ AusAID (2001).

services. Its importance to a very wide range of stakeholders - taxpayers, consumers of public services, businesses, investors – also makes public financial accountability important for political legitimacy and stability.

The widening fiscal deficit remains the weakest link in the Government's macroeconomic performance. While several other donors are providing support for public expenditure management, niche areas suitable for Australian assistance have been identified on the basis of earlier small-scale interventions. These include strengthening accountability and transparency in budget formulation and management, including in relation to the new Government Accounting System; improving the information base for policy making and planning; and improving planning and reporting on the Mid-Term Expenditure Framework and Sector Efficiency and Effectiveness Reviews. There may also be opportunities for Australia to help strengthen GOP revenue collection.

Public financial management operates in the context of the decentralised system of government. Local Government Units (LGU) are responsible for the provision of basic services, facilities and regulatory functions in sectors such as agriculture, infrastructure, environment, social services and health. Resources are allocated from central government in accordance with the internal revenue allotment (IRA). LGUs collectively are entitled to 40 per cent of the national internal revenue collected three years earlier.

Previous Australian aid support for the decentralisation process has primarily been through small-scale institutional strengthening and training activities in selected provinces and with specific LGUs. This type of activity is discussed under Rural Development, below. In addition, we will seek to address the institutional and fiscal dimensions of the decentralisation process, aiming in particular to improve planning, coordination, accountability and fiscal relationships between the national and local levels of government.

Macro-economy

The international financial institutions (IFIs) – IMF, World Bank and Asian Development Bank – take the lead in diagnosing economic difficulties and recommending appropriate policy and institutional action. There is unlikely to be much scope for Australia to intervene directly in the macro-economic area through the aid program, but we will support IFI engagement through policy dialogue as appropriate.

Private sector development

The Philippine private sector comprises a range of large, medium, small and micro enterprises, including millions of rural producers. National level policies and institutions in areas such as trade, investment and finance affect the ability of the private sector to contribute to growth and poverty reduction. Sectoral policies, for instance in agriculture, are also critical.

Australia will help strengthen the enabling environment for private sector development primarily by focusing on policies or institutions which may be hindering internal and international **trade and investment**. Current policies are severely distorting resource allocation, particularly in agriculture, and constraining rural development. However, strong vested interests make policy change unlikely, at least in the short term. In terms of trade policy, Australian efforts will therefore be focused primarily on building capacity to implement international agreements (WTO), and integrate effectively into ASEAN and APEC. In relation to investment, analytical work will be undertaken to identify legislative, institutional and policy impediments to foreign and domestic investment. Specific future areas of intervention might include property rights (particularly land administration), competition policy (building on previous assistance to the Tariff Commission), investment regulation and reduction of 'red tape'.

The poor **security** situation in the Philippines is another significant hindrance to private sector activity. This issue is addressed separately under Strategic Objective Two below.

Objective 2: Improved security and stability

Conflict and lack of security in the Philippines erode investor confidence and threaten economic stability. Conflict is both a cause and a consequence of persistent poverty in parts of the Philippines. Conflict and security concerns also constrain the ability of donors to engage with development challenges. Australia's aid program will address selected aspects of the security and peace-building agenda, through a range of delivery vehicles.

Counter-terrorism capacity building

As announced by Prime Minister Howard in Manila in July 2003, Australia will assist key GOP agencies to strengthen their capability to prevent, respond to and investigate terrorist activities. Four main areas have been identified: law enforcement, border control, port security and regional cooperation. Further details are provided in the next chapter.

Mindanao peace processes

Australia has given strong support, particularly through the United Nations multi-donor program, to the peace agreement negotiated in 1996 between GOP and the Moro National Liberation Front (MNLF). Future assistance will likewise focus on conflict prevention and peace building, impact mitigation and post conflict recovery. In addressing some of the causes and consequences of conflict in Mindanao, we will also be addressing the broader strategic objective of sustainable rural development in selected provinces of the southern Philippines (discussed in the next section).

Achievement and maintenance of peace is dependent on successful negotiation and dialogue between the GOP and other parties, followed by effective disarmament and demobilisation. Australia does not have a direct role in these processes, but we are prepared to channel

significant resources into former conflict zones as an incentive, or dividend, for long term peace building and recovery. For instance, the re-integration of former combatants and displaced persons into communities can be facilitated through provision of productive opportunities and improved access to services. The aid program will also expand engagement with groups involved in advocacy in support of peace and reconciliation, (e.g. women's groups, academia, media). Australia will also continue to contribute to multilateral efforts to mitigate the impacts of conflict on displaced persons and other vulnerable groups, particularly women and children.

Given the uncertain security prognosis, further specific elements of Australia's support for peace in Mindanao will be developed as the situation evolves. Analytical work to provide a more robust framework for our assistance is currently being undertaken by the Philippines program, drawing on the aid program's *Peace, Conflict and Development Policy*, reviews of current conflict-related donor activities in Mindanao and a Conflict-Vulnerability Workshop conducted by the Philippines program in early 2003.

Objective 3: Improved rural living standards

As discussed in Chapter 1, a complex web of policy, systemic, institutional and environmental factors impact on the ability of the rural poor to rise out of poverty. Some of these constraints need action at the national level, some are amenable to local initiatives, and others require coordinated actions across all levels of government and the community. Assistance to strengthen governance and the security environment is an important part of rural poverty reduction. Local-level interventions can complement these efforts and achieve significant impacts for specific target populations.

There will initially be two components of our rural development assistance:

- Improving the quality of, and access to, *basic education* and *technical/vocational training*
- Addressing key local-level constraints to rural income growth and human development, including through *area-focused approaches* in selected provinces.

A third component may also be addressed in the future:

- Reducing the *population* growth rate.

Education and training

Education and training opportunities are critical to expanding income-earning potential. Education is a high priority for the Philippines government and an area where Australia has a strong record of achievement. While national-level education indicators are relatively strong, the southern Philippines (particularly the ARMM) has fallen well behind.

Building on the successes of past and current education assistance, aid program involvement in basic education and technical/vocational training in the southern Philippines will be

expanded over the Strategy period. Both access and quality issues will be addressed, with particular emphasis on ensuring formal and non-formal education systems meet the specific needs of disadvantaged groups, including Muslim and indigenous communities. Distance learning delivery modes will be supported where feasible and appropriate, particularly in conflict-prone and remote areas where provision of face-to-face services can be problematic. This is consistent with the GOP's Strong Republic School Initiative and Australia's Virtual Colombo Plan.

Area-focused rural development

We will pursue an area-focused approach to rural development in a limited number of provinces in the southern Philippines (see *Geographic Focus*, below). The aid program has had considerable success in interacting with local level institutions and processes, and has begun to develop some effective models for strengthening local capabilities. Further assistance will be provided in three main areas:

- Enhancing the *planning and service delivery* capabilities of local governments. Particular areas of focus will include helping develop accountable, responsive systems for planning and delivering services and expanding the local revenue base to finance service provision.
- Easing constraints to *rural production and marketing*. Consistent with Prime Minister Howard's announcement in July 2003 of increased technical assistance to agriculture, we will target both:
 - national policy settings, to be addressed through our Governance assistance (particularly trade and investment policy, land administration reform and quarantine-related capacity building), and
 - local-level constraints, such as availability of appropriate technologies and infrastructure, natural resource management, pest and disease control. This assistance will build on successful Australian involvement in reducing the spread of Foot and Mouth Disease (FMD), and previous community-level interventions for small-scale infrastructure, technological improvement and resource management.
- Developing *human capital*, through assistance for:
 - Education and training as discussed above, and
 - Priority local health issues. While the health sector is not proposed as a major focus for Australian aid over the Strategy period, there will be capacity for limited assistance in cases where particular health issues (e.g. malaria, tuberculosis, dengue) are identified as having a major impact on rural income growth and human development within the target geographic areas. Similarly, improvements to local water supply and sanitation systems will be supported where these are identified as essential for community health.

Population

Prospects for raising rural living standards and ensuring adequate service delivery are made even more challenging by the high rate of population growth in the Philippines. GOP policy at present is not conducive to donor action in this area. If this policy changes in the future, Australia would consider support consistent with the aid program's family planning guidelines (AusAID 2002c) and in conjunction with other donors.

Geographic focus

Australia's aid program has had a geographic focus on the southern Philippines, particularly Mindanao, since the mid-1990s, in recognition of the high incidence of rural poverty and the impact of conflict in those regions. This emphasis will continue. For instance, when we are addressing national level constraints to rural development through our governance programs, those constraints of particular relevance to Mindanao and the southern Visayas will be accorded priority. Assistance for conflict prevention and peace building will be provided primarily in Mindanao. However, security concerns narrow down the area within which Australian projects can be implemented. At present, Muslim (west) Mindanao is not amenable to the scoping and implementation of new projects, although we do have one current project (BEAM) operating effectively in these areas in spite of the constraints. In parts of Mindanao where bilateral project implementation is infeasible, we will continue to engage primarily through multilateral, GOP and NGO channels.

Beyond the program's broad 'southern' emphasis, an area focused approach will operate in up to five provinces. Under this approach, development assistance is delivered within a specific geographic locality, such as an environmental zone (mountain region, watershed area), municipality or province. The rationale is that an increased impact will be derived from the creation of a critical mass of activities which overlap and interact.

An area focused approach may take a variety of forms. A single program operated by one implementing team may provide a range of directly interlinked components – as, for example in the GOP-World Bank KALAHI-CIDSS program and the Philippines-Australia Local Sustainability (PALS) project. Alternatively, separate projects with different implementation teams may be loosely connected and coordinated under some form of program management umbrella. A third model is more akin to a flexible 'facility' approach, with a range of loosely related activities being managed by one team.

In 2000 the Australian and Philippine governments jointly selected five target provinces for an area focused approach on the basis of: (i) poverty; (ii) environmental considerations, such as critical watersheds; (iii) manageability (including current and previous Australian aid engagements) and (iv) security. The five provinces selected were Northern Samar and Bohol in the Visayas, and Agusan del Sur, Surigao del Norte and Misamis Occidental in Mindanao. Misamis Occidental was already the location of an ongoing Australian area-focused activity

(PALS). In the other four provinces, multi-disciplinary teams of Philippine and Australian experts carried out detailed scoping studies during 2001.

The four provinces were found to vary in several important ways. Whilst all had the same general problems and issues relating to and causing poverty, the degree of severity of the main poverty indicators varied enormously. For example, Northern Samar was by far the poorest province and had the worst education indicators, particularly when compared with Bohol. The environmental degradation and resource management issues in Agusan del Sur (mainly related to the Agusan Marsh) were very different from the coastal resource management issues in Surigao del Norte.

Subsequent to the scoping studies, it became evident that three of the four provinces were likely to be included in the World Bank's KALAHI-CIDSS poverty reduction program. Plans for finalising and implementing an Australian area focused program were put on hold pending further information on the progress of KALAHI-CIDSS. The situation remains uncertain, but in the meantime, the Philippines-Australia Community Assistance Program (PACAP) has commenced development of small-scale area focused intervention strategies for the four provinces. It is intended that training and other needs identified by PACAP will be referred to other existing program facilities.

The selected target provinces will also increasingly be the focus for larger-scale integrated approaches. This does not necessarily mean designing a single aid activity to address all issues. Program-wide management mechanisms, described in Chapter 6, will provide the opportunity to coordinate separate undertakings within a single geographic area.

Where GOP and other donor programs are already being provided within a coherent poverty reduction framework, Australian assistance will be designed to complement and strengthen these programs. Within our target provinces, identification of municipalities for Australian assistance will be based on existing or additional analysis of the potential for development impact. Successful activities will be extended into neighbouring municipalities or other provinces where appropriate.

Given the fluidity of the security situation, selection of particular locations for area-focused work will necessarily be somewhat opportunistic and may change within the Strategy period. Further scoping work in other provinces within the southern Philippines will be undertaken as required.

5 Implementing the strategy

Implementation options

Program outcomes will be achieved through a tailored mix of implementation mechanisms. Several ongoing activities remain relevant under the new Strategy and would require only minor fine-tuning to ensure continued success. New activities will also need to be developed to deliver the specified program outcomes. Further analytical work and policy engagement will supplement the 'on-the-ground' activities.

As is the case in the current portfolio, a range of delivery options may be appropriate for new activities, including stand-alone bilateral projects, inclusion in regional projects and co-financing with multilateral or other bilateral donors. Responsibility for implementation of bilateral activities may be contracted to Australian Managing Contractors (AMCs), or to local contractors, GOP agencies or NGOs. There will continue to be heavy reliance on experts from the local consulting and NGOs community as sub-contractors.¹¹

The practical difficulties of locating project teams in conflict-affected areas will continue to affect the way Australian aid is delivered, particularly to Mindanao. Official travel advisories urging against non-essential travel to Mindanao constrain activity identification, implementation and monitoring. Lawlessness and NPA activity across much of our geographic area of interest also creates challenges and in one recent instance has forced the Australian Team Leader to withdraw from the project province to a safer location.¹² The current emphasis on multilateral, NGO and GOP delivery mechanisms in conflict-affected areas is expected to remain appropriate for the foreseeable future.

Given the uncertain political and security environment, the principle of progressive engagement remains appropriate for the Philippines program. At the program level, progressive engagement means retaining the flexibility to enter into new areas and exit from old ones, even within the life of a country program strategy. Areas suitable for Australian assistance can emerge unexpectedly. Small interventions, probably financed through a flexible facility, can 'test the water' and explore the potential for Australia to provide an effective larger activity.

Progressive engagement will also continue to be applied at the activity (or 'project') level. An initial phase allows for development of partner capacity and thorough assessment of needs

¹¹ As is currently the case in PACAP, BEAM and PALS, for instance.

¹² PALS operates in Misamis Occidental; the ATL and main project office are now in Cebu, with a deputy team leader and other local staff managing operations on the ground and commuting regularly to Cebu.

and absorptive capacity. Subsequent phases are shaped by the success of, and findings in, the first phase. Activities found not to be progressing towards desired outcomes in the first phase can be reduced or terminated, while those found to have greater potential can be fine-tuned, extended and perhaps expanded.

Strengthening partnerships

Working with other donors

Australia will continue its active participation in donor coordination mechanisms such as the annual Consultative Group meetings chaired jointly by the GOP and World Bank, and issue-based donor working groups (e.g. Mindanao, basic education). Regular consultations with key donors will also continue to play an important role in program development and review.

Given budgetary limitations on Australian assistance, maximising impacts requires mobilising other donor resources towards achieving common goals. For instance, if we succeed in drawing more children into public education in parts of Mindanao through BEAM and other education projects, this will increase the needs for infrastructure and equipment, which other donors are better placed to address.

Of 17 major activities currently being implemented under the Philippines Program, eight are co-financed with multilateral agencies. We have been working with the World Bank on land administration, water policy and distance learning, the ADB (until recently) on health systems and the FAO on foot and mouth disease eradication and support for the agrarian reform process. Australia is by far the largest donor to the UN Multi-Donor Program for Mindanao, managed by UNDP. We also give significant support to the UNICEF Country Program for Children.

While working with and through multilateral agencies can be challenging, we anticipate continuing to deliver a large proportion of our aid to the Philippines in this way throughout the Strategy period. This will particularly be the case in support of peace processes and rural development in Mindanao, where security considerations make placement of Australian project teams difficult or infeasible. We will be closely involved in a forthcoming review of the UNDP program and will then assess the appropriate level of any further contribution through that mechanism. This decision will also depend to some extent on any future multi-donor arrangements set up in response to the MILF peace process.

We will also collaborate with UNICEF in preparation of its new Country Program for Children. Our experience to date, the outcomes of earlier reviews and the consistency of UNICEF activities with this Strategy suggest strong potential for further strengthening of our partnership with UNICEF.

Our collaboration with FAO has also achieved positive outcomes, particularly in control of foot and mouth disease (FMD). An extension of the FMD project aiming for eradication throughout the Philippines is expected to proceed from late 2003.

Further partnership arrangements with multilateral or bilateral donors active in locations of interest to the Program will be developed over the life of the Strategy as a fundamental part of Strategy implementation.

Engagement with GOP

Formal mechanisms for engaging in policy dialogue with GOP – Consultative Group, GOP/donor working groups – have been described in Chapter 3. Australia’s aid program will remain a strong participant in these fora. Regular high level consultations (HLCs) will continue to provide the main opportunity for bilateral discussion of policy and strategic issues affecting the delivery and impact of Australian aid. New program oversight arrangements described in the next chapter will also involve an increased level of engagement between aid program personnel and GOP counterparts. In addition, frequent dialogue on particular issues with both line and central agencies is already a feature of the relationship and this will continue.

We will also explore further opportunities for GOP agencies to implement selected Australian aid activities – as is the case in the malaria project being implemented by the Agusan del Sur Provincial Government. Under the Vulnerable Groups Facility (VGF) set up in response to the Asia Crisis, Australian aid was provided directly in support of existing GOP social safety net programs to ensure their continued operation. It was always intended that this would be a short-term measure, to avoid any long-term distortion of GOP budget allocation. While the VGF is nearing completion, we recognise that ‘national implementation’ of aid-funded reform efforts – such as improved LGU planning and service delivery – may be more cost-effective and have greater impact than traditional project approaches. In particular, the greater sense of local ownership can significantly strengthen the sustainability of reforms. An important element of any such arrangement would be the management of institutional, financial and other risks. The local implementing agency would be assisted, where necessary, in developing strong financial and other accountability systems.

Involving Australian institutions and expertise

Australian institutions such as federal and state government agencies, universities and agricultural research bodies bring particular values, a collegiate approach and contemporary expertise to the delivery of Australian development cooperation programs in the Asia Pacific region. There is scope to involve these institutions more actively in program delivery. This is already beginning to occur through the counter-terrorism capacity building initiative, which is being implemented through the Australian Federal Police (AFP), Department of

Immigration and Multicultural and Indigenous Affairs (DIMIA) and Department of Transport and Regional Services (DOTARS).

A new Government Sector Linkages (GSL) mechanism will facilitate development of long-term relationships between Australian government agencies and their counterparts in the Philippines. Similar schemes are already operating in Australia's Indonesia and Thailand aid programs, as well as through the regional APEC Support Program. Work is currently underway to bring these various mechanisms together and expand their availability to other partner countries, including the Philippines. This will make it easier to access relevant Australian expertise in areas such as trade policy and quarantine, counter-terrorism, fiscal decentralisation, public sector reform and market regulation.

Australia has recognised technical expertise in rural development, especially agricultural policy, trade, research and extension and integrated natural resource management approaches, which can be adapted to Philippine circumstances. One possible means of accessing this expertise is through the Australian Centre for International Agricultural Research (ACIAR). ACIAR's program of assistance brings together researchers in Australia and the Philippines in areas including farming systems, resource management, marketing and livestock husbandry. There may be scope to draw on ACIAR's established linkages to further the strategic objective of overcoming constraints to rural production and marketing.

The Australian aid program has developed long-standing and productive relationships with non-government organizations (NGOs) and other civil society groups in the Philippines. Given the strength and sophistication of the local NGO sector, we do not consider it necessary or appropriate to develop specific strategies in support of Australian NGO activity in the Philippines. Accredited Australian NGOs have access to the AusAID-NGO Cooperation Program (ANCP), may bid for project delivery contracts and can engage with the Australian aid program through their local affiliates within the Philippines.

Implementation planning and operational pipeline

The emphasis over the next five years will be on re-orienting the program to achieve maximum impact in relation to the strategic objectives outlined above. Existing programs of assistance for governance, basic education and community development will be modified as they move into new phases. Further program development work will need to be undertaken in relation to each of the three strategic objectives. An immediate priority is the fielding of identification and feasibility missions covering basic education, technical/vocational education and distance learning. We will also be working closely with key multilateral agencies to influence their future directions and identify appropriate areas for Australian support.

Implementation of the Strategy and achievement of desired outcomes will be challenging, and subject to numerous program-level and external risks which will require vigilant management (see *Risk Management*, Chapter 6). Nevertheless, at this stage our assessment is

that the pipeline of new activities required for Strategy implementation will be feasible within current resourcing limitations and given current risks. The regular processes of Strategy and program review, described in the next chapter, will provide opportunities to re-assess feasibility and if necessary, modify strategic directions and/or implementation timelines.

Governance

The Philippine-Australia Governance Facility (PAGF) commenced in November 1999. Since then, small-scale assistance has been provided in a range of areas including public expenditure management, corporate governance, judicial reform, local governance, energy sector reform, banking reform, statistical methods and anti-corruption. Design of a new phase of PAGF is currently underway. In line with the priorities identified above, the new governance facility will comprise a core program in the areas of public financial accountability and management, trade policy and support for the decentralisation process. Some scope to respond flexibly to new priorities and emerging issues will also be retained.

While PAGF has provided small-scale assistance for local government planning processes in Northern Samar, intensive longer-term support to specific local governments would require alternative mechanisms. These will be explored as we develop further the area-focused component of the Strategy (see below).

The development of longer term linkages between counterpart institutions in Australia and Philippines will be actively fostered, both through the PAGF and also through the new Government Sector Linkages (GSL) mechanism, described above.

Existing regional programs, particularly the APEC Support Program and the ASEAN-Australia Development Cooperation Program, provide a useful mechanism for supporting effective integration of the Philippines into APEC and ASEAN.

A new Human Resource Development Facility will be established in 2004 to support the short term and long term training needs of selected institutions. This Facility will replace the previous Short Term Training Facility and the Australian Development Scholarships program. Key areas of focus of the HR facility will be consistent with the priority areas of the CPS.

Improved governance arrangements for Land Administration and Management will continue to receive Australian support, subject to this remaining a GOP policy priority. Design of a second phase of LAMP has begun, in collaboration with the World Bank.

Security

Counter-terrorism capacity building

On 14 July 2003 the Australian Prime Minister announced a \$5 million, three year initiative to strengthen the counter-terrorism capacity of key GOP agencies. Four main areas have been identified:

- **Law Enforcement:** improving the capacity of the three key law enforcement agencies – Philippine National Police, Philippines Center on Transnational Crime and the National Bureau of Investigation – to work collaboratively at both strategic and operational levels to address counter-terrorism challenges.
- **Border Control:** improving the Bureau of Immigration’s ability to deter illegal people movement through better detection of fraudulent travel documents. Document examination laboratories will be established and associated equipment, software and training provided.
- **Port Security:** helping port authorities in the Philippines develop port security plans to meet new International Maritime Organisation obligations.
- **Regional Cooperation:** supporting the strengthening of links between law enforcement and border control officials in the southern Philippines and their counterparts in the neighbouring region.

Australian support for Mindanao peace processes is likely to continue being primarily through multilateral and non-government channels. We hope to participate in a review of the third phase of the UN Multidonor Program for Mindanao in late 2003/early 2004, which will then inform planning for any fourth phase. This will provide a good basis for determining the appropriate nature and scale of future Australian involvement. Similarly, we will engage closely in the development of other multilateral initiatives in support of a future peace agreement with the MILF.

Support for the peace-building initiatives of non-government and community organisations will continue to be undertaken primarily through the Philippines-Australia Community Assistance Program (PACAP). The future directions and operational arrangements for PACAP are being reviewed and a new phase consistent with CPS priorities will be implemented from 2004.

Rural Development

Education

Australia’s assistance for education will be significantly expanded. A pre-feasibility mission is planned for late 2003 to identify potential areas for future Australian involvement in basic education, technical-vocational education (TVE) and distance learning. As discussed in Chapter 3, we have a strong track record in these areas.

The Basic Education Assistance for Mindanao (BEAM) project is achieving significant successes in improving access to and quality of both formal and non-formal education in Mindanao. Distance learning options have also been trialled. BEAM will be expanded in Phase II, commencing 2004, drawing on both its own experiences and those from previous education assistance, particularly the Project on Basic Education (PROBE).

Given the important potential role of technical/vocational education (TVE) for enhancing income-earning potential and providing young people with alternatives to involvement in armed conflict, this area will receive increasing attention during the life of the Strategy. Australia has had long-standing involvement in TVE through the Technical and Vocational Education Project (1990-94), Agricultural Technology project (1993-2000) and Quality Technical and Vocational Education Training (2000-05). BEAM has also incorporated some TVE in its first phase.

The feasibility and appropriateness of various distance learning delivery modes will be considered through all our future education activities.

Options for expanding Australia's role in education will be heavily influenced by other donor activity. In particular, the United States has recently announced a new education assistance package valued at US\$33m over 6 years. An ADB loan program for basic education in Mindanao has been under preparation for some years and may be implemented from 2005. UNICEF will be developing its sixth Country Program for Children for the period 2005-08, with education continuing to be a major focus. We anticipate continuing and potentially expanding funding of UNICEF activities in our priority geographic areas. Joint or co-financing with other bilateral and multilateral donors may also be appropriate. In addition, we will assess the scope to use national or local government implementation channels.

Area focus

The area-focused component of Australia's assistance will be developed in close consultation with key stakeholders in target provinces, building on the analytical work already undertaken.

The Philippines-Australia Local Sustainability (PALS) program has been a particularly successful model of Australian assistance for rural development. The first phase of this program operated in six municipalities of Misamis Occidental over 1999-2003. Over the 2003-08 period, PALS activities are to be extended to the remaining eight municipalities of Misamis Occidental. The feasibility of extending a similar model to another target province will be explored. Sensible options will depend to some extent on progress with the GOP's flagship KALAHI-CIDSS poverty reduction program, which has similar objectives to PALS. We will also draw on CIDA's experience in local government capacity building. The option

of direct Australian support for KALAHI-CIDSS in selected areas will be assessed once lessons from the pilot phase are available and GOP post-election priorities are clarified.

The Philippines Regional Municipal Development Project (PRMDP), which concluded in 2001, is another possible model for further replication. As agreed at the 2003 High Level Consultations, PRMDP will be evaluated to identify elements (such as local taxation initiatives) which might usefully be offered to other municipalities within our target geographic area.

At the local level, the Philippines-Australia Community Assistance Program (PACAP) has been operating for 17 years supporting NGOs and Peoples Organisations to implement small-scale community development activities. During the period of the last CPS, PACAP took on an increasing area focus. This trend will continue in the new phase of PACAP from 2004. The types of activity supported will increasingly focus on the relationship between communities and local government structures, consistent with the emphasis in this CPS on improved service delivery.

During the Prime Minister's July 2003 visit to the Philippines, he indicated Australia would respond sympathetically to Philippine requests for technical assistance in agriculture. The aid program will seek to draw on the technical expertise of ACIAR and other Australian organisations to meet this commitment.

Australian support for control of foot and mouth disease (FMD) resulted in international recognition of Mindanao, the Visayas, Palawan and Masbate as FMD free. A further two-year phase of FMD assistance will be supported from 2003 in an effort to achieve nationwide FMD eradication. Australia would also consider helping GOP combat other significant plant or animal diseases restricting farm productivity and agricultural trade.

We will also continue providing assistance to agrarian reform communities through PATSARRD (Technical Support for Agrarian Reform and Rural Development), and more broadly through PACAP for small-scale infrastructure, technological improvement and resource management.

While the health sector is not proposed as a major focus for Australian aid over the Strategy period, there will be capacity for limited assistance in cases where particular health issues, such as malaria, dengue fever, tuberculosis or water supply and sanitation, are identified as having a major impact on rural livelihoods within a target municipality or province. The Agusan del Sur Malaria project, which is being implemented by the provincial government, will serve as a possible model for such assistance. We may also choose to work with multilateral agencies (e.g. WHO, UNICEF) on particular activities consistent with this Strategy.

Other constraints to rural productivity will be addressed primarily at the national policy level through governance programs, e.g. trade policy training and land administration

reform. Barriers to trade, particularly quarantine issues, will also be addressed. A new regional Sanitary and Phyto-Sanitary (SPS) program will be implemented from 2004 in several South East Asian countries, including the Philippines. Bilateral activities to complement the regional assistance will be considered. The APEC Support Program provides a mechanism for small-scale regional assistance in a range of trade-related areas including quarantine. The GSL mechanism will also be available for small bilateral activities in these areas.

Analytical work and policy engagement

Analytical work in support of Strategy objectives may potentially range from significant published research through to informal reporting on policy insights gleaned from program activities or discussions with GOP or other donors. Objectives of policy engagement and analysis may include:

- Contributing to Australian whole-of-government policy development;
- Specification and fine-tuning of program outcomes and performance measures;
- Directly contributing to the achievement of a program outcome;
- Improving program quality by addressing operational or cross cutting issues such as gender and environment; and/or
- Providing a basis for strategy and program review.

During the strategy period we will build on earlier sectoral and provincial scoping studies, focusing on issues of direct relevance to our three strategic objectives and area-focused approach. A forward workplan of analytical and policy engagement tasks has been developed and will be updated regularly, in close consultation with the GOP. Initial priorities cover issues such as education, peace and conflict, decentralisation, population and other donor programs.

6 Managing the program

AusAID administrative arrangements

The Philippines program is jointly managed by the Philippines section in the Australian Agency for International Development (AusAID) in Canberra and the AusAID Post at the Australian Embassy in Manila.

The Philippines program led the way in AusAID in devolving responsibility for day to day activity management to the Post, beginning with a trial in 2001. When the devolution process was reviewed in 2002, most contract and activity management had been successfully transferred to Post. The Review found that activity management was generally proceeding smoothly, thanks to the skills, experience and commitment of staff in both locations, and managing contractors were satisfied with the new arrangements. However, finalisation of AusAID's new Strategic Plan in late 2001 had 'lifted the bar' in efforts to achieve a more strategic and effective organisation. This, along with the finding that the efficiency and effectiveness gains expected to result from devolution had not yet been realised, led the Review team to recommend further action in several areas. Critical amongst these were improved administrative systems and modified staffing structures at Post, and clarification of roles, responsibilities and working relationships between Desk (Canberra), Australia-based officers at Post and the Post Program Support Unit (PSU).

The Devolution Review recommendations are being progressively implemented. For instance, Desk-Post planning workshops facilitated by a professional change manager will become a regular feature of program management. Priorities and tasking for implementation of the joint Desk-Post work plan will be agreed at these workshops. Information flows will be improved and regular contact visits made between staff in Canberra and Manila to ensure team tasks are efficiently undertaken. Agency-wide work to define roles and responsibilities in the 'new AusAID' will provide the basis for further refinement for Philippines program purposes. A revised PSU structure has been agreed and new staff are being recruited accordingly.

Performance measurement

The strategic objectives discussed in Chapter 4 provide a clear framework for selecting appropriate aid interventions, but the aid program by itself can play only a minor role in achieving those objectives. The GOP itself, other donors and a range of external factors will, in most cases, have a greater impact on the degree of progress.

A results framework approach will provide the basis for measuring the performance of the Philippine program in the context of this country program strategy. Articulation of a hierarchy of program performance measures and strategy-level monitoring indicators will

assist program managers and reviewers to assess cause and effect linkages, and therefore the contribution of the program to Philippines development.

At the activity level, preparation of a monitoring and evaluation framework is required as part of the design or inception phase of each activity. Progress reporting and monitoring will be based on the achievement of objectives and outputs specified in the activity logframe and contract scope of services. The Activity Monitoring Brief (AMB) or Simplified Monitoring Tool (SMT) and other periodic reporting will be the principal tools for recording outcomes. New activities will be designed to ensure that activity-level indicators are consistent with the broader program-level results frame.

Program monitoring and review

Program-level

High Level Consultations (HLCs) held approximately every 18 months between the governments of Australia and the Philippines will continue to have over-arching responsibility for setting and refining strategic directions for Australian aid. Between HLCs, AusAID will maintain its close working relationship with the GOP's National Economic and Development Authority (NEDA) to ensure common understanding and agreement on priorities and activities.

Australian Managing Contractors (and other implementing agents) will be given additional responsibility for reporting on the contribution of their activities to program-level outcomes. In addition, six-monthly Team Leader meetings will provide an opportunity for AusAID and senior project personnel in the Philippines to share insights into broader policy and programming issues affecting current, and potentially future, program delivery. This will facilitate coordination among the various aid activities, ensure AusAID is aware of emerging issues and keep team leaders updated on relevant Australian government policies and priorities. NEDA and other GOP agencies will be invited to participate in these meetings as appropriate, to promote awareness of the Philippines development context and GOP priorities among both AusAID and its project teams. These occasions will also allow for discussion of policy, regulatory, institutional or structural issues affecting the impact and sustainability of Australian supported initiatives, particularly at the local level, and for identifying effective approaches suitable for wider replication.

A Program Review and Advisory Group (PRAG) will be established, comprising eminent Australians and Filipinos with a mix of strategic insight, policy awareness and program review expertise. This Group will operate under direction from, and in collaboration with, AusAID.

It will:

- Help AusAID finalise a results framework for the Philippines program, by defining (or refining) appropriate program-level outcomes for each strategic objective, specifying measurable indicators to monitor performance, identifying means of verification and establishing a set of baseline data
- Help project teams assess the contribution of project-level achievements to program-level outcomes
- Undertake (or commission others to undertake) rapid assessments and periodic in-depth reviews of on-going activities and evaluations of completed ones
- Update the baseline data set at least annually, noting significant factors external to the aid program which have impacted on the figures
- Act as Secretariat for the 6-monthly Team Leaders meetings referred to above; at least one PRAG member to participate in each meeting and report on any significant program monitoring and review issues encountered
- Advise AusAID on issues raised by the performance measurement framework that require further in-depth research and analysis
- Using the above information, and other investigations as required, prepare for AusAID an annual review of Strategy implementation, describing achievements and shortcomings and recommending, where necessary, modifications to the strategic directions, program objectives, activity portfolio or management arrangements.

Activity level

The performance monitoring and review activities of the PRAG may in some cases need to be supplemented by activity-specific quality assurance arrangements beyond the standard monitoring and evaluation processes required of AMCs. Options include monitoring groups contracted by AusAID or the AMC for the life of the project, in-house adviser input, ad hoc contracting of local or Australian experts or the use of GOP monitoring mechanisms.

TAG

The Technical Advisory Group (TAG) is a standard AusAID project monitoring mechanism. A TAG is an independent team, usually of one to three members, appointed by an AusAID activity manager to provide high-level technical advice to the Agency of specific aspects of an activity. The TAG's duties and responsibilities are controlled by terms of reference drawn up by the AusAID officer.

A 1998 review of TAGs found that they generally played a useful role in improving the quality of AusAID's activities and programs. However, their use needed to be selective and well-guided. Where activity implementation is proceeding smoothly, a TAG might not add much value, but where a project is not operating effectively, the TAG can fill a cost-effective role in advising AusAID on appropriate remedial measures on the basis of its independent

and expert assessment. Factors such as the size, complexity, political sensitivity and operating environment of a given activity would also determine the usefulness of a TAG.

Several AusAID programs have recently extended the TAG concept beyond the single project, setting up sectoral TAGs whose members may be drawn on either individually or as a group for particular monitoring roles.

In the Philippines program, TAGs have been used for the Malaria project in Agusan del Sur and PALS. There may be a continued role for project-specific TAGs in some instances, particularly in assisting activity managers at Post to make judgements on technical aspects of milestone reports. In some cases, these roles may be subsumed under the broader program monitoring arrangements described above.

QAP/QAC

The Philippines program pioneered the use of Quality Assurance Panels and Quality Assurance Contractors, which are currently being trialled in three projects (BEAM, LAMP, PAQTVET). The intention was to transfer some of the workload of activity management (milestone verification) from the PSU officers at Post to the Australian Managing Contractor (AMC). The AMC is required to establish the QAP as part of its Quality Assurance (QA) system for the management of an activity. The QAP's primary role is to assist the AMC in a peer review capacity to ensure contract payment milestones meet the performance standards specified in the activity contract. The QAC, on the other hand, is appointed and contracted by AusAID. The QAC's primary role is to monitor and assess the AMC's observance of its QA systems, in particular its use of the QAP, through periodic Quality Assurance Audits. AusAID may also direct the QAC to undertake other tasks, such as a Project Output Assessment or assessment of project Annual Plans.

The QAP/QAC model has not been widely adopted by other AusAID country programs. A review of the costs and benefits of the QAP/QAC will be undertaken to provide a more rigorous basis for future choice for both the Philippine and other country programs.

Advisers

AusAID desk officers have tended to rely heavily on in-house technical advisers to assist with activity monitoring and review. With activity management now residing primarily at Post, Adviser resources in Canberra could usefully be supplemented by a pool of technical experts available in-country. Such individuals may effectively take on the role of a TAG or QAC.

GOP monitoring

Under the 1991 Local Government Code, LGUs at all levels (barangay, municipal, provincial, regional) are required to establish Local Development Councils, which are responsible for

coordinating, monitoring and evaluating the implementation of development programs and projects. The National Economic and Development Authority (NEDA) has developed a Regional Project Monitoring and Evaluation System (RPMES) for use by these Councils, particularly at provincial and municipal levels. NEDA has selected Misamis Occidental province as a pilot area to install and test a new Results Monitoring and Evaluation component of the RPMES. Monitoring and evaluation systems for the PALS project in Misamis Occidental are being integrated with the NEDA system. Workshops and consultations with NEDA, DILG and LGU counterparts have been held to develop guidelines and templates, as part of efforts under PALS to enhance LGU capability in monitoring and evaluation.

Risk management

The Philippines portfolio faces increased domestic and external risks that are sometimes beyond the Program's control.

An open economy, large public debt, fiscal risks due to GOP's contingent liabilities, and large external financing needs render the Philippine economy vulnerable to both external shocks and policy slippage. The international environment may be less conducive to export oriented growth, while disenchantment with international integration, coupled with pressures from vested interests may further stall needed reforms. There may continue to be problems with fiscal management that may impact on GOP's ability to fund key programs (and provide counterpart funding), and necessary actions to make progress on the decentralisation agenda may be delayed.

Weak government institutions and high levels of corruption are serious constraints to development. As the country moves towards the 2004 elections, uncertainty about the direction of policy reform increases, and the risk looms of disruption and discontinuity caused by the personnel and institutional changes that may follow on a change in administration.

Conflict in Mindanao and the resurgence of NPA activity across the country increase the challenges faced for on-the-ground activity preparation, implementation and management. At the same time, high security risk and law and order problems threaten the pursuit of national development policies and discourage local and foreign investment.

The Philippines is vulnerable to the consequence of the spread of international terrorism and the diversion of resources and localised destabilisation that may be entailed in combating these threats.

Population management remains a major challenge for the Philippines and the government has chosen not to address it as an explicit national priority. However, the demographic arithmetic raises questions about the likely effectiveness of many current approaches to

poverty reduction. This prospect of very limited success needs to be taken into account in the strategic and risk management framework.

Environmental risks and other natural disasters also loom large. Typhoons and related flooding are a regular occurrence. The El Nino drought of the late 1990s caused a severe decline in agricultural production which exacerbated the economic impacts of the Asian financial crisis.

The program has a number of mechanisms for managing these risks. These include increased efforts on political and institutional monitoring at the Desk and the Post and greater collaboration with and reliance on local and multilateral programs.

Application of the principle of 'progressive engagement', outlined in the previous chapter, is one important part of the program's risk management strategy.

A second element of a risk management strategy will be a well-functioning monitoring and evaluation framework, linked to an explicit process of review and adaptation of the CPS as described above. Monitoring and review will be seen less as an externally imposed reporting requirement, and more as a critical internal management tool. Close monitoring of the GOP's continued commitment to its fiscal reduction program will be required as the quality and sustainability of Australian assistance will depend on Philippine absorptive capacity.

Another feature will be improved country level analysis and information gathering, allowing for rapid identification of critical developments and their implications for the Program. Flexibility in the choice of aid delivery mechanism; in planning, management and resource allocation; and having a small spread of activities to introduce competitiveness into forward programming, will also be invaluable in responding to risks and taking advantage of emerging opportunities. There will also be more continuous engagement with other donors — particularly the multilateral agencies — to tap into the analysis and development thinking that the better-resourced organisations are able to undertake. Further analytical work will also be undertaken by the Program itself, as described in Chapter 5.

A risk management matrix for the CPS is presented in Annex B. It will be updated on a regular basis as part of the strategy review process.

Resource implications

The management arrangements described above will result in clearer articulation of Canberra and Post responsibilities and the further alignment in-country of monitoring, activity management and contract management functions. These arrangements should reduce duplication between Canberra and Post, simplify lines of authority and enhance the responsiveness of activity-level decision making. They will also ensure that Australian-based resources are able to focus increasingly on the corporate analytical and program quality agenda.

Training and professional development for staff in both Manila and Canberra will be an important part of strategy implementation. The capacity of the Program Support Unit (PSU) in Manila to manage aid activities effectively will continue to be a major focus of personnel development activities managed corporately in Canberra. In line with agreed implementation arrangements for the AusAID Strategic Plan, a PSU Team Leader will be recruited to lead and consolidate the operational activity of the PSU as well as providing on-the-job training and mentoring to PSU staff. This will free up Australia-based officers at Post to engage in policy dialogue and other analytical tasks.

In-house design-related skills will be enhanced among Canberra-based staff responsible for program and pipeline development. Philippines section staff will increasingly play active roles in design missions, ensuring that new designs are consistent with program strategic directions and corporate quality standards. Canberra staff will also have a major focus on the policy and analytical agenda required to inform strategy implementation and refinement.

The existing program is already quite efficient in administrative terms, with 17 major activities in 2002/03 accounting for nearly 97% of the \$56 million program expenditure. This is managed by a complement of 7 staff in Canberra, 3 posted officers in Manila, 10 PSU program/project officer positions (not all currently filled) and 5 other PSU support staff. Current configurations will be kept under review as the AusAID Strategic Plan and this new strategy are implemented, but at this stage no significant resourcing changes are anticipated.

During development of this new country program strategy, it has become evident that a number of existing activities need to be refined and re-focused, rather than simply 'rolling over' to new phases as earlier envisaged. This has caused a slowing down of activity implementation and a consequent freeing up of resources, which can now be directed towards new activities consistent with this strategy. Identification and design work will therefore commence immediately, with a view to implementing major new activities as soon as practicable. In the meantime, opportunities will be sought for 'early harvest' of CPS outcomes through new or increased contributions to relevant multilateral initiatives.

Attachment A — Strategic Objectives

Philippines Program Objective Tree

Chart A1



Chart A2

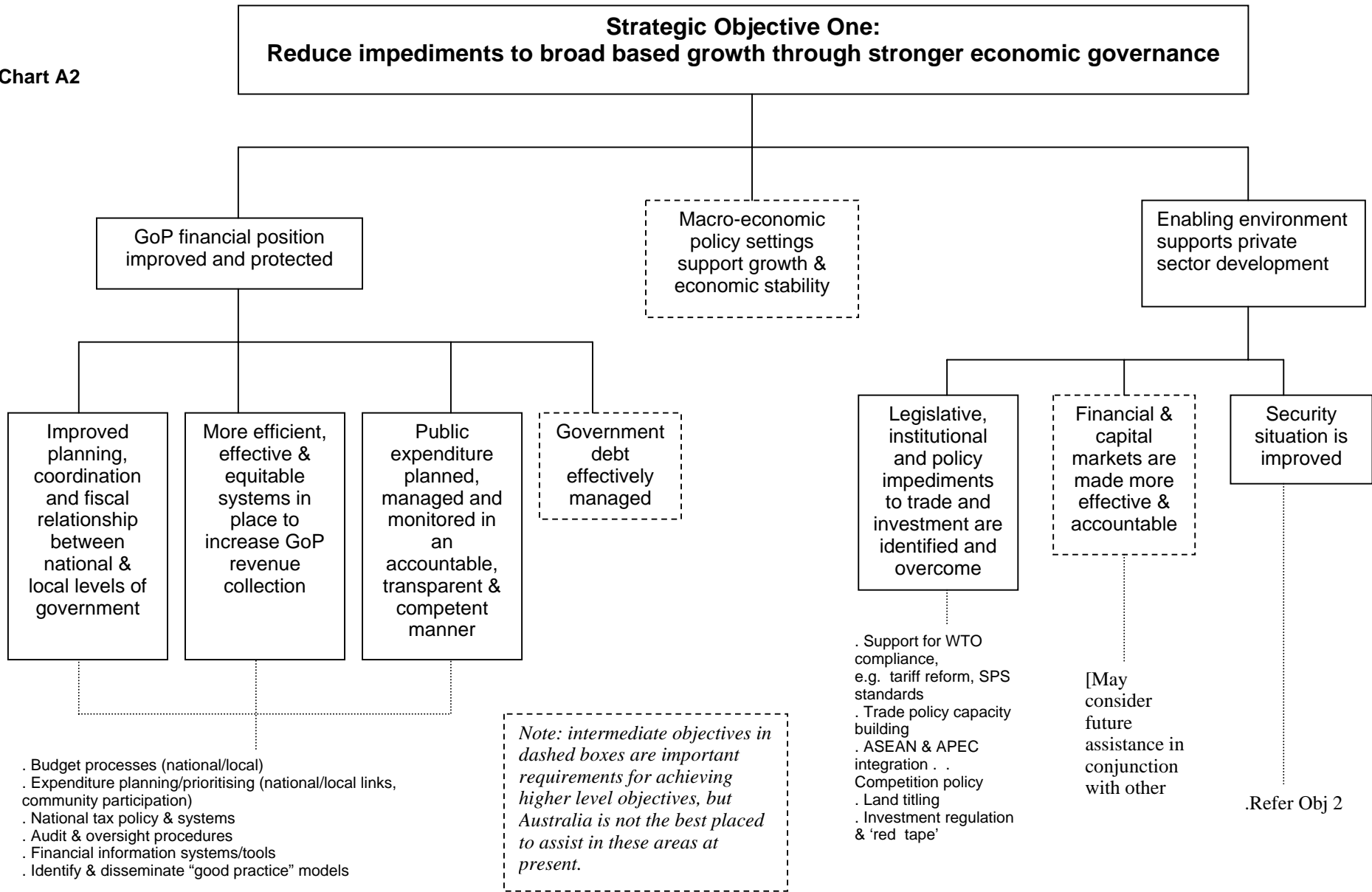


Chart A3

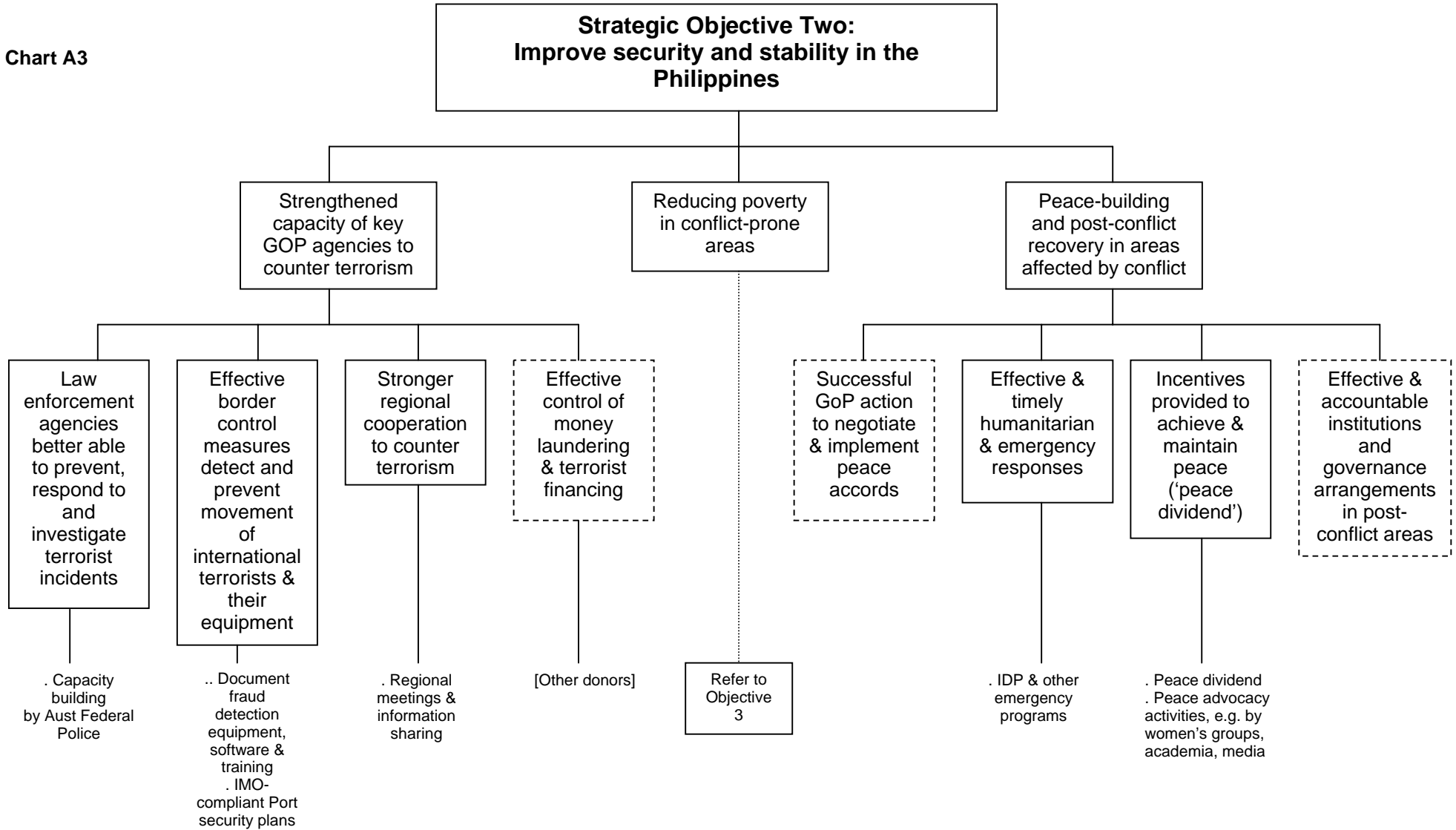
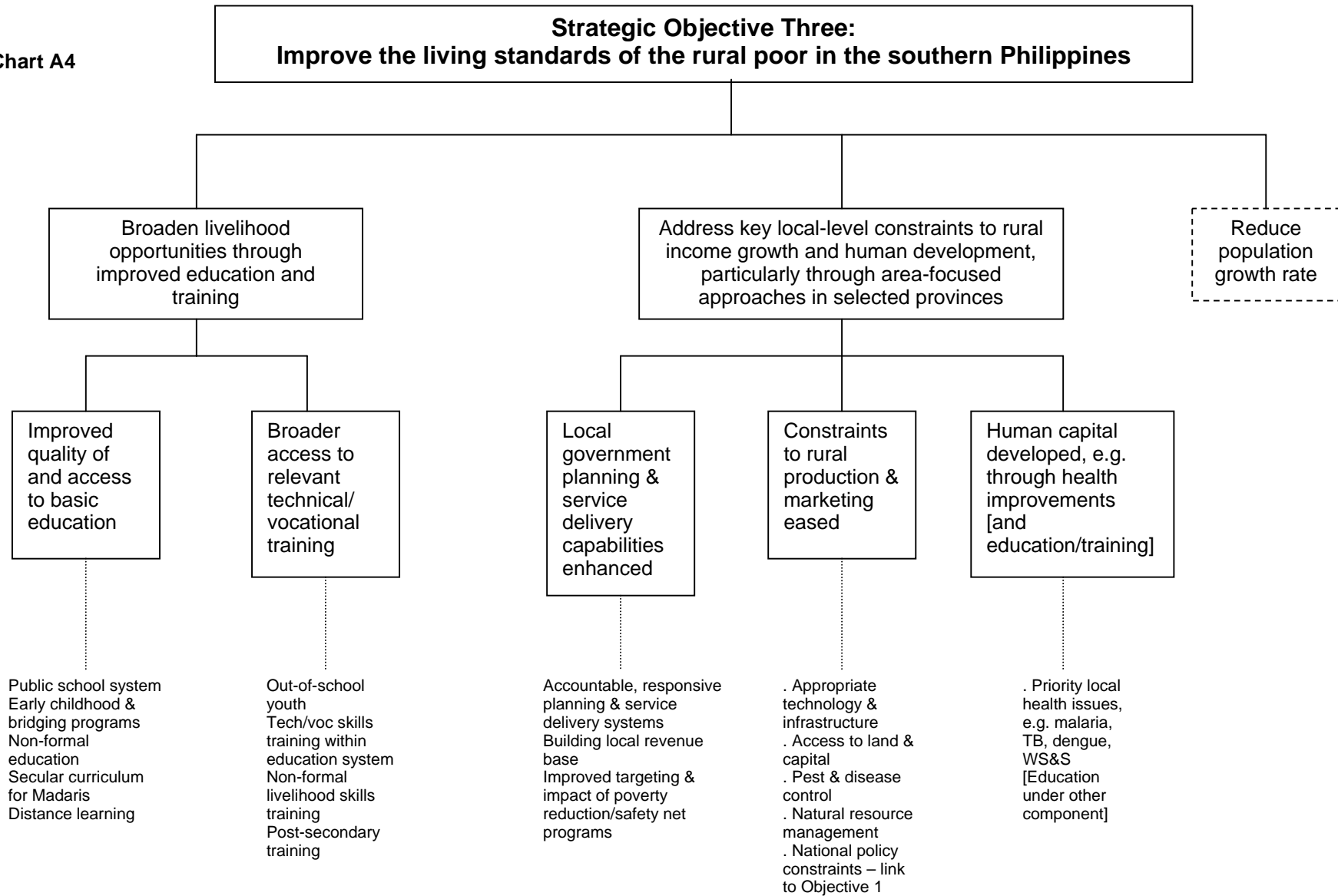


Chart A4



Attachment B — Risk Matrix

L = Likelihood (5 = almost certain ... 1 = rare) C = Consequence (5 = severe ... 1 = negligible)

Risk	Source	L	C	Program response
Regional economic downturn results in reduction of inflows to Philippines economy	External	3	5	General monitoring. Review strategy and program composition through annual strategy review process if necessary.
A high rate of return of overseas workers (due to global economic downturn, war, international pressures etc) results in loss of revenue and increased population pressure	External	4	5	General monitoring and policy engagement with GOP on revenue enhancement reforms and population management in conjunction with other donors.
Stalling or reversal of globalisation	External	3	4	General monitoring and policy dialogue using WOG with GOP and other donors. Review strategy and program and, if appropriate, make provision for specific new/additional measures to address policies or institutions hindering internal and international trade.
Major natural environmental deterioration, including as a result of natural disaster, reverses development gains.	External	4	2-4	Impact monitoring at Post and by other donors and GOP agencies. Review programs to assess impact and modify focus if necessary. Assess disaster preparedness in programs with local focus; provide assistance to improve disaster preparedness, adjust scope and objectives of relevant program activities as appropriate.
High population growth rates continue resulting in strained basic services.	Country	4	4	General monitoring and policy engagement with GOP, other donors and multilateral agencies on population management.
Rate of integration through regional and global trade agreements is slow or reversed	Country			General monitoring and policy dialogue using WOG with GOP and other donors. Focus on building capacity to implement international agreements, and support through the Asia Regional Program for effective integration into ASEAN and APEC.
Decreasing confidence within the investment community regarding law and order, corruption and security concerns undermines growth and stability.	Country	4	4	Monitor private sector operating environment using WOG, GOP and other donor information. Review strategy and program and, if necessary, make provision for specific new/additional measures to overcome legislative, institutional and policy impediments to foreign and domestic investment. Support improved public financial standards and practices, greater accountability and transparency of public budgets. Assist key GOP agencies to strengthen their capacity for improved law and order, including counter terrorism.
Internal security situation limits ground activity (esp. by Australian technical assistance)	Country	2-3	4	Monitoring by AusAID Manila. Review security arrangements, minimise emphasis on Australian technical assistance at design stages, increased reliance on program delivery through local and multilateral donor programs.

Risk	Source	L	C	Program response
Political change leads to abandonment of GOP reform agenda, changes to development priorities or loss of institutional continuity	Country	3	4	Increased focus on political and institutional monitoring at Desk and Post; close liaison with multilateral agencies. Accelerate policy dialogue and cooperate with multilateral agencies. Increase focus on social sectors and local level assistance. Increase focus on governance and advocacy, assess impacts of loss of 'champions', review size and scope of program. Progressive engagement is one principle of the program's risk management strategy.
GoP revenue capacity insufficient to support programs	Country	3	3	Ongoing country monitoring. Reassess funding options, including partner absorptive capacity, increase support to governance initiatives.
Changes to donor policy result in reduced availability of funding.	Country/ External	2	4	Ongoing liaison with other donors and multilateral agencies.
Increased inequality of income and living standards leads to instability	Country	3	2	Monitor, using WOG, GOP other donor and AusAID field data. Policy dialogue, including jointly with other donors, if necessary. Review strategy and program and, if necessary, make provision for specific new/additional rural poverty and/or social safety net measures.
Vulnerable groups (VG) including ethnic minorities are unable to access benefits of growth and development	Country			Monitor, using WOG, GOP, other donor and AusAID field data. Policy dialogue, including jointly with other donors, if necessary. Review strategy and program and, if necessary, make provision for tailored new/additional rural poverty and/or social safety net measures.
Devolution failure/lack of LGU capacity to implement financial and administration reforms causes incomplete delivery of GoP policy and donor activities.	Country	2-3	4	Monitor LGU performance through program activities, broad monitoring of devolution process. Increase focus on capacity-building at the LGU level and with civil society.
Poor or inadequate GoP/donor coordination results in overlap and reduces donor impact.	Country/ Program	2	3	Maintain close liaison with GOP, NGOs and multilateral agencies esp. other donors, maintain focus on clarifying niche for Australian development cooperation. participate in donor coordination mechanisms such as the annual Consultative Group meetings and issue-based donor working groups.
Increasing security concerns reduce or eliminate direct delivery of Australian technical assistance.	Country	3	3	Ongoing security monitoring and increased focus on alternate delivery mechanisms to minimise need for on-site Australian technical assistance.
Replicability of program activities is unsustainable or beyond LGU resources.	Program			Dialogue with GOP on role and objectives of program and specific activities. Build from lessons learned in the Philippines to date. Make scaling up a specific objective of key activities and dedicate resources for the purpose. Monitor program performance measures relating to dissemination and replication.
AusAID financial or human resources reductions or constraints reduce capacity to deliver program	Country/Program	2-3	5	Continue to refine and streamline program to minimise administrative burden. Develop skills for program analysis and in-country management. Support NEDA, line agency and LGUs capacity building for ODA management and monitoring.

Risk	Source	L	C	Program response
Inadequate/inappropriate activity selection, design and contracting processes reduce program quality	Program			Activity selection and design preceded by extensive analytical work and consultation with GOP and other donors. Design teams spend more time working closely with counterpart personnel. More flexible, outcome-oriented contracting approaches. Quality control through peer review, technical appraisal and liaison with Contracts section.
Technical/consultant market unable to provide timely and appropriate expertise to deliver program activities	Program			Focus program in areas of Aust. comparative advantage and depth of expertise. Test the market prior to large-scale commitments. Period contracts and agreements with Aust. public sector agencies to provide enhanced and timely access to expertise. Review consultant performance regularly, esp. in consultation with GOP.
Failure to adopt and maintain effective M&E Framework approach	Program	1-2	3	Continuing internal review process and updates to CPS. Recognition of evolutionary process of developing and implementing strategic approach and M&E.

Attachment C — Key references

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