



Australian Government

Department of Foreign Affairs and Trade

Aid Investment Plan

The Philippines

2015/16 to 2017/18

Strategic priorities and rationale

Context

The Philippines is one of Australia's longest-standing bilateral relationships. We have shared interests and values, supported by strong people-to-people links. Australia is home to over 250,000 people of Filipino heritage, with over 10,000 Filipino students enrolled in Australian universities and vocational institutions.

Australia's interests in the Philippines will be pursued by the development of a well-managed and stable Philippine state and a more prosperous, inclusive and open economy. A more open economy will not only benefit Filipinos, but also allow both nations to continue to pursue a mature economic partnership. Two-way trade was \$3.8 billion in 2014, but has the potential to grow and benefit both countries.

Australia's strong relationship with the Philippines, including through the aid program, provides an opportunity for us to work together in regional fora such as the Association of Southeast Asian Nations (ASEAN), the Asia Pacific Economic Cooperation (APEC) and the East Asia Summit. Australia and the Philippines share similar approaches to strategic and foreign policy and can promote improved regional development and stability in regional fora.

In May 2016 there will be general elections in the Philippines, which will include polls at all government levels, including the Presidency. We will consult with the incoming administration to ensure the Australian aid program continues to align with Philippines Government priorities.

Constraints to growth

The Philippines has experienced significant growth over the past four decades, but unlike many of its Asian neighbours this growth has not resulted in a commensurate reduction in poverty and has been limited to a few sectors of the economy and society. Growth in the Philippines is heavily reliant on remittances from Filipinos working overseas and is limited to a few sectors of the Philippine economy.

To inform the re-shaping of Australian aid to the Philippines, DFAT has undertaken an analysis of the binding constraints to growth (the Growth Analysis of the Philippines, or GAP) to determine the most important constraints to inclusive economic growth. The GAP identified the top constraints to economic growth were poor infrastructure planning processes, bureaucratic capacity and unequal access to education.

Further, the GAP found that a lack of jobs among lower-income earners is a key feature of entrenched poverty in the Philippines. While the 'business processes outsourcing' sector is growing, there is a major 'missing middle' in low to medium skilled manufacturing which, if developed, would elevate millions out of poverty.

Many of the constraints to inclusive growth are linked to the system of Philippine governance and the role of patronage in society and the economy. For Australia's aid initiatives to work effectively within this context, we have carefully considered the political dynamics and the feasibility of achieving lasting reforms within each area we have selected to work.

Every constraint to growth brings with it a distinct set of political dynamics and a range of key players: private sector actors, national government agencies and multiple layers of subnational authority and power. In recognition of the diverse range of players and responsibilities Australian aid will be targeted at national, sub-national and local levels to ensure development gains are long lasting and closely aligned to the Philippines Government's objectives.

Economic partnership

Total Australian Official Development Assistance (ODA) to the Philippines will be an estimated \$84 million in 2015/16, representing around 0.3 per cent of Philippines Government annual government revenue of over USD42.5 billion and overseas remittances of USD28.5 billion. However, it is not the size of the program per se which is important, but rather its ability to leverage change. Our economic partnership with the Philippines will focus on trade, investment and aid working together to encourage growth.

Australia will deliver targeted advice and technical assistance that will have a catalytic effect both on reform efforts and capacity of the Philippines government. Given the Philippines strong economic position we will shift focus from basic service delivery, such as classroom construction, towards supporting the Philippines Government to better manage its own resources.

The new direction of Australian aid to the Philippines will be informed by the Australian Government's development policy *Australian aid: promoting prosperity, reducing poverty, enhancing stability*; by Australia's national interests; by our ability to add value and our previous development results. Australia's aid will also align with the priorities of the Philippine administration which is seeking to put the country on the path of accelerated and inclusive development. The administration has an ambitious reform agenda to tackle poverty, improve governance and address corruption, while pushing through important social sector reforms, including education, and promoting peace in the Southern Philippines. Following the 2016 Presidential Election in the Philippines we will work with the incoming administration to ensure our aid program remains aligned to its agenda.

Goal and objectives

The overarching goal of the Australian aid program in the Philippines is to *accelerate inclusive economic growth and political stability*. Three objectives in this Aid Investment Plan will support this goal:

Objective 1: Enhancing the foundations for economic growth

Australia will make greater investment in building the foundations for economic growth through carefully targeted investments in infrastructure, aid for trade and education. Education investments will lay the ground work for a better educated workforce and promote higher participation in the formal labour market.

Infrastructure

Poor infrastructure planning and funding shortfalls have been identified through the GAP as a headline constraint to inclusive economic growth. The Philippines has posted impressive growth rates in recent years and is an emerging middle income country with a dynamic private sector. The Aquino government has increased total investment in infrastructure; however, this investment is not sufficient to meet the needs of a country whose population has recently exceeded 100 million and expected to reach 140 million by 2040. Our infrastructure program will be designed to promote improved infrastructure planning and delivery through increased public and private investments. The program will aim to deliver high impact outcomes while recognising that Australia is best advised to address selected priorities in the infrastructure agenda. We will work closely with partners to maximise and leverage results.

We will continue support for public private partnerships that have previously resulted in substantial private sector investment in much-needed infrastructure projects. As private firms are the end users of economic infrastructure we will design our support for this objective in close consultation with them. We will focus on improving government agencies' capacity to manage long term infrastructure contracts, including appropriate monitoring and evaluation of contractors and projects.

The program will assist to connect infrastructure at a national and regional level to improve the efficiency of value chains, including in agriculture and manufacturing. DFAT will engage with the private sector to ensure infrastructure planning and delivery meets economic and social needs as well as encouraging competition amongst market participants.

A recurring barrier to job creation and economic growth is the devastating impact of natural disasters. Disasters can drive families back into poverty and cut national and local economic growth rates. The combination of high population, growing urbanisation and exposure to meteorological and geological hazards makes the Philippines one of the most disaster-prone countries in the world. Disasters such as Typhoon Haiyan drove over one million Filipinos back into poverty and cut national growth rates by as much as one per cent.

Disaster risk reduction principles, environmental and social safeguards and disability-inclusive policies will be routinely and consistently considered in the design, implementation and monitoring of our aid investments, but particularly in the infrastructure sector. Australia will continue to be a responsive neighbour to support the Philippines Government to respond to large scale natural disaster events.

Aid For Trade

Aid for trade is an important element of Australia's development policy. Australia will provide targeted technical and financial inputs to help the Philippines Government better formulate trade and economic policy and effectively negotiate agreements that can lead to increased trade flows and better integration into regional and international supply chains. We will work closely with Philippines Government agencies, the private sector and academic partners to identify and address priority areas for assistance. We will facilitate greater academic and policy exchange to provide an academic base for economic reform. Aid for trade investments will enhance our efforts to support a more open, competitive and connected Philippine economy which can better engage with international partners.

We will contribute to women's economic empowerment in the Philippines through implementation of the regional *Investing in Women Initiative*. Through this initiative we will aim

to provide incentives for greater investment in financially unserved or underserved women-led small and medium enterprises in the Philippines. The initiative will also provide evidence and assist networks to advocate for policy reform and public support for increased women's economic participation in the country.

Education

The basic education sector in the Philippines needs support to meet the demand for a job-ready workforce. Around nine per cent of children never enrol in school. Only 71 per cent complete primary school and less than half of grade one entrants end up completing a secondary education.

Australia has partnered with the Philippines Government on education development for more than two decades, and is acknowledged by the Philippines Government as a “partner of choice” in bringing exceptional quality technical expertise to basic education reform. This will be achieved at the national level through the Basic Education Sector Transformation (BEST) program which will improve the quality of education through better trained teachers and improved school curriculum. Following the scale back of the Australian aid program, the BEST program will move from its earlier focus on school classroom construction to a greater focus on providing technical advice to improve standards, and teaching and learning outcomes. BEST will continue to strengthen the Philippine education system and allow it to perform at international standards, to produce the globally-competitive workforce that is required for the Philippines to participate more effectively in the regional and international economy, such as the ASEAN Economic Community.

While there are currently more girls than boys attending school in the Philippines, gender equality remains a focus for our education program. Our programs support the increased inclusion of boys, who record a higher drop-out rate than girls, in schools. Gender equality issues will be closely monitored within the sector.

Through our economic partnership we will also seek to support Australian and Philippine universities to promote research opportunities, and build stronger links across the tertiary sector. This will enhance our understanding of the Philippine economy, politics, and regulatory environment.

Objective 2: Building stronger institutions for transparent and accountable governance

Improving the quality of governance in the Philippines is fundamental to the country's prosperity and stability. In response to the challenge of weak institutions and corruption, we will support the national government as it fosters a culture of accountability and transparency.

Human resource development

We will focus on developing human capacity in the civil service, both at the national level and in the proposed regional government for the Bangsamoro. Public servants require appropriate skills and knowledge to perform their roles. We will focus on supporting Philippine public institutions (including in Mindanao/the Bangsamoro), working closely with the Department of Budget and Management and the Civil Service Commission. Through the Human Resource and Organisational Development Facility (HRODF), evidence shows that our approach is improving the internal systems and staff capabilities of our partners through short-term training, post-graduate scholarships (Australia Awards Scholarships and Fellowships), and workplace

coaching and mentoring. This program has a strong track record of including women and girls in all aspects of human resource training and management. Partnerships between Australian and Philippine universities will be used to develop capacity by pursuing jointly accredited degree and scholarship programs. In 2015 Australia is implementing the New Colombo Plan in the Philippines, seeing Australian students studying and interning at Filipino universities and firms.

Improved financial management

To complement our work on human capacity, we are supporting improvements in Philippines Government financial systems through the *Public Financial Management Program (PFMP)*. PFMP has improved accountability and transparency of government expenditure, which has, in turn, enhanced delivery of services to Filipino people.

Policy reform

Our innovative Coalitions for Change Program, delivered in partnership with The Asia Foundation (TAF), builds networks across the Philippines to foster carefully targeted policy reforms, strengthen institutions towards building a culture of accountability and transparency. Australia and the TAF country office in Manila have entered into a strategic partnership to strengthen the role of civil society in pursuing policy change and to improve the responsiveness and accountability of government institutions in development settings across the Philippines.

Land governance

Australia will strengthen our efforts to address land governance issues which have been identified as an important constraint to growth and poverty reduction. Unclear land ownership, as well as collective titles have reduced the incentive for investment on farms, lowered government revenues and can be a source of conflict. We will work with partners to try to improve revenues and enhance delivery of land titling services at the local level, while recognising indigenous populations as key stakeholders in land reform.

Objective 3: Improving conditions for peace and stability

Australia's national interest in regional political stability requires programs in Mindanao that support a more credible and widely supported peace agreement, heightened institutional capacity to implement the agreement and stronger local mechanisms for averting the escalation of violence. Our program will also have a positive impact in the medium term on poverty and growth at the local level.

Australia's investments in peace and stability are targeted, flexible, do-no-harm and build on previous experience. The *Building Autonomous and Sustainable Institutions and Communities in the Bangsamoro (BASIC, 2014-16)* will focus on assisting the transition to the Bangsamoro. This program will improve the capacity of institutions, ensure the peace process is more credible and widely supported, and strengthen local mechanisms for averting the escalation of violence. The role of women in peace building is critical. Through BASIC we will prioritise opportunities for women's engagement in the implementation of the peace agreement and in the establishment of the new Bangsamoro regional entity.

We will facilitate productive partnerships between civil society, government, non-government, and donor agencies on peace and development issues. We will support the Philippines Government and Bangsamoro transitional authorities to access both local and international experts during the transition. We will support the Office of the Presidential Adviser on the Peace

Process (OPAPP) and when appropriate provide expertise that will assist the transition to autonomous policing.

In Muslim Mindanao, the region with the country's poorest education outcomes, Australia will continue to support a comprehensive education assistance program to reduce the gap in school participation and learning achievement in highly disadvantaged communities. Australia's efforts will continue to be pursued through the *Basic Education Assistance for Mindanao in the Autonomous Regional of Muslim Mindanao* (BEAM-ARMM). This is a priority for both the national government and the Bangsamoro authorities, and makes a strong contribution to our peace and stability objectives.

We will continue working with other donors and multilateral agencies to support development in the Southern Philippines. Australia is a consistent contributor to the Mindanao Multi-Donor Trust Fund. This fund supports economic and social recovery while promoting effective governance in conflict-affected areas.

Implementation approaches

Australia will take an active approach to maintaining knowledge of the country context and agreeing directions directly with the Philippines Government, which is Australia's principal partner in implementing the aid program. We will continue to engage regularly with the Philippines Government National Economic and Development Authority (NEDA) to confirm that Australia's priorities remain aligned with, and contribute to, the development agenda of the Philippines.

We will select the most appropriate implementing agencies, oversee the effectiveness and efficiency of programs, and make well-considered, evidence based decisions to ensure key outcomes are on track for achievement. We will continue our trend towards targeted initiatives that are catalytic to change and support areas where the Government of the Philippines can mobilise their own resources.

The private sector

In line with the Australian Government's development policy *Australian aid: promoting prosperity, reducing poverty, enhancing stability*, we will deepen engagement with the private sector, leveraging support and enhancing regulatory capacity towards the goal of promoting a more level playing field for the business community as a whole. Initiatives will be required to demonstrate regular engagement with relevant private sector stakeholders and report on this in annual monitoring processes.

As private firms are the end users of economic infrastructure we will design our support in this sector in close consultation with them. Our education program will regularly engage with the private sector on future labour market needs and private sector delivery options.

Progressively working through government systems

Where appropriate, Australia will use the Philippines own systems to deliver Australian development assistance. Alignment with Philippines systems will be selective, and we would adopt a phased approach informed by a rigorous assessment of fiduciary and other risks. Our Fraud and Anti-Corruption Strategy, along with ongoing risk and performance measurement will ensure that risks are proactively identified and effectively managed.

Effective use of technical advice

Technical assistance is a core vehicle in our assistance in the Philippines and it is critical to helping unlock reforms and engaging in policy dialogue. Where Australia does engage advisers, they will be accountable to both the Australian Government and the Philippines. Australia will engage our partners on adviser recruitment and review processes. All adviser positions will represent value-for-money and deliver against terms of reference carefully linked to our objectives.

The Philippines is benefitting from the deployment of Australian Civilian Corps (ACC) personnel. ACC deployees provide a high level of expertise, flexibility and accountability and will continue to be a feature of our advisory support, particularly in disaster response and recovery.

UN and NGOs

UN and NGO partners will be important in disaster response work. As demonstrated previously, for example in preparation for, and response to, Typhoon Haiyan in 2013, our humanitarian partners will strive for effective engagement with affected communities, robust operational capacity, and efficient coordination to enable rapid deployment of assistance and to manage the surge of international humanitarian workers.

DFAT's partnership with The Asia Foundation (TAF) has been an important way to facilitate and influence reforms that would not have been possible independently. Our partnership with TAF will continue to help leverage networks of NGOs, national agencies, business people, mayors, legislators, academe, and media, and contribute to policy reforms.

Managing contractors and flexible approaches

A large proportion of program funds are delivered through private managing contractors, engaged to undertake a range of inputs such as training, technical advice, procurement and monitoring and evaluation on behalf of Australia.

We will continue to use managing contractors where they represent the most effective delivery model. DFAT, in partnership with the Philippines Government, will closely oversee the selection and performance of managing contractors. We will engage contractors and develop funding facilities against plans that are both programmatically coherent and flexible to unforeseen reform opportunities.

Development banks

Australia has a strong partnership with the World Bank in the Philippines which will continue through the AIP period. The DFAT-World Bank Philippines Development Trust and the Mindanao Multi-Donor Trust Fund (MTF) have improved alignment between World Bank and Australian Government priorities and enabled efficient delivery of assistance. We will continue our relationship with the Asian Development Bank in implementing our public-private partnerships initiative.

Australian academic Institutions

We will deepen engagement with Australian universities and institutions and leverage their regional knowledge and research expertise to better understand opportunities for better use of the Philippines Government's resources. The roll out of the New Colombo Plan in the Philippines will also provide greater opportunity for Australian universities to develop understanding of the tertiary education sector the Philippines.

Performance management

Performance benchmarks 2015-16

Aid objective 1	<i>Enhancing the foundations for inclusive economic growth</i>	
Performance benchmark	<i>Improved regulatory environment for international business and increases in trade flows</i>	<i>New aid-for-trade facility designed</i>
Performance benchmark	<i>Improved Philippines Government infrastructure planning aligned with economic needs</i>	<i>New infrastructure and connectivity program designed</i>
Performance benchmark	<i>Department of Education is using Unified Management System for effective and efficient service delivery.</i>	<i>Department of Education has completed design of the Unified Management System</i>
Performance benchmark	<i>Improve Philippine Government capacity to promote, develop and implement Public Private Partnerships (PPP) projects</i>	<i>14 PPP projects competitively tendered</i>
Aid objective 2	<i>Building stronger institutions for transparent and accountable governance</i>	
Performance benchmark	<i>Philippines Government agencies apply more transparent and accountable governance arrangements and transformative policy reforms achieved in key target sectors</i>	<i>Three Philippines Government agencies have human resource development plans in place</i>
		<i>Three partnerships between Philippine and Australian academic institutions are facilitated</i>
		<i>60 Australia Awards provided to Filipino students</i>
Aid objective 3	<i>Improving Conditions for peace and stability</i>	
Performance benchmark	<i>Number of women actively participating in peace building</i>	<i>1000 women community leaders participate in public consultations</i>
Performance benchmark	<i>Number of children enrolled in pre-school and elementary grades from disadvantaged communities</i>	<i>25,000 additional children enrolled in targeted schools</i>

Mutual obligations

Australia's support is aligned with the Philippines' own development agenda and progressively policy commitments. The Philippines Government articulates its development agenda in the Philippine Development Plan (PDP). The PDP 2011-2016 is focussed on addressing fundamental impediments to inclusive growth, including high income inequality, and governance challenges. For example, the Philippines Government has committed to:

1. Increase the government revenue-to-GDP ratio to 17.1 per cent by 2016 (from 15.5 in 2014)
2. Improve investment in human resource management and development for all levels of government bureaucracy to a percentile rank above 70 in World Governance Indicators (from a baseline of 56.9 in 2013)
3. Increase public expenditure in basic education and support to local government units with a target of 83 per cent elementary completion rate by 2016 (from 72.1 per cent in 2010)
4. Exert all efforts to win peace and ensure national security through negotiated political settlements of all armed conflict, with 100 percent of programs delivered by the Department of the Interior and Local Government, the Department of Social Welfare, the Department of Agriculture, and the Department of the Environment and Natural Resources demonstrating conflict sensitive approaches.

Australia will deliver aid in line with the objectives of the Aid Investment Plan against the performance benchmarks identified in close consultation with the Government of the Philippines. We will maintain regular high-level policy dialogue where we can encourage the Philippines Government towards the achievement of the goals it has set. We will discuss emerging issues and target areas of underperformance.

It will be important that the Philippines continues to provide the political momentum and economic support to implement its own development priorities, and to build on proven approaches supported through the development program.

Monitoring, review and evaluation

Across all investments, we will continue to take responsibility for generating credible information, and using it for accountability and good program management. Staff will actively monitor programs, communicate robust performance management standards to contractors and partners, and ensure their products meet them. Program Managers will take responsibility for synthesis and use of credible information in decision making – such as through purposeful scoping of evaluation terms of reference, and proactive management responses to their recommendations.

DFAT will use agreed mechanisms to ensure that we test whether:

- We will make appropriate progress and having desired impacts: We will also monitor the ultimate benefits we expect to contribute and our overall goal of inclusive economic growth and political stability.

- We will adopt sound implementation approaches: We will carry out a series of Implementation Approach Reviews to explore and test the way we deliver aid in the Philippines.
- We will adapt to changes in context: Annual assessments look beyond the changes Australia is supporting and will inquire into emerging risks and opportunities for the aid program.
- We will ensure safeguard risks and controls are identified, implemented and monitored with priority on compliance with DFAT child protection, environment and resettlement policies.
- Our programs represent value for money: Results will be checked against resource inputs to ensure that benefits are cost effective.
- Annual high level dialogue will be informed by timely inter-sessional independent reviews that can provide robust information. The annual aid quality processes and Aid Program Performance Reports will synthesise all information and also inform future programming decisions.

Program management

Governance and resource management

Australian aid to the Philippines will be managed by the Department of Foreign Affairs and Trade (DFAT) in Manila and Canberra.

Overall responsibility for aid policy, strategy and the divisional aid budget will lie with DFAT's First Assistant Secretary (South-East Asia Maritime Division), while the Ambassador (Manila) will have responsibility for the leadership of the development relationship and for the delivery of the bilateral aid program.

DFAT staff in Manila have primary responsibility for analysis, design, management and evaluation of the aid program. To support these responsibilities, the Manila based team may also draw on advice from Canberra based DFAT specialists, thematic areas, the Australian Civilian Corps, as well as the DFAT Philippines Section. Rigorous design and evaluation will enhance our effectiveness and we will make resources available to enable independent specialists to inform these processes.

Developing, implementing and evaluating aid investments requires highly skilled staff. We will maximise our capability through integrated and flexible use of human resources and by investing in staff training and development.

Risk management

The aid program is closely aligned to Philippines Government priorities. The Presidential elections in 2016 may result in changes to Philippines Government development priorities. To address this DFAT will monitor the political environment closely and analyse the impact of political developments on aid program priorities. DFAT will review the AIP following the 2016 elections to ensure it aligns with Philippines Government priorities. DFAT will continue to work actively with officials, incoming leaders and civil society to ensure our aid is well aligned and effective.

Given significant corruption risks, we will carefully assess and monitor all investments that use Philippines Government systems for implementation. In 2012 DFAT undertook a rigorous Assessment of National Systems (ANS). The ANS will be updated in 2015/16 and will be used to inform the future of our programs through government systems. Additional oversight and monitoring is employed on all programs using government systems.

There is a risk that determined implementation of the Government of the Philippines - Moro Islamic Liberation Front Comprehensive Peace Agreement may wane. This could lead to a wind back of the peace process, an increase in violence and weakened opportunities for human and economic development. Programs supporting the peace process have flexibility to be able to

change focus to support changes to the peace process and unforeseen opportunities and needs, as required.

Conflict and security issues can affect aid implementation and monitoring. We will work closely with local organisations, partners and officials to assess the local security situation in the Southern Philippines and develop alternative program monitoring arrangements where needed. Programs are also designed to be flexible to changes in the peace process, changes to security conditions, and take highest consideration of the physical security and well-being of implementing staff.

Natural disasters and their impact present significant risks. Exposure to disasters and climate change is considered not only in our disaster management programs but throughout all Australian development programs in the Philippines. Infrastructure support must comply with Philippine building codes and 'build back better' principles. We also encourage Philippines Government plans and policies to consider the impact of disasters.

Risk monitoring and communication

Process	Frequency
Update of program-level risk register	Quarterly
Update of sector-level risk registers	Quarterly
Mission senior management team discussion on progress of risk treatments, escalation of country aid risks and any new risks	Monthly
Country program senior management team discussion on progress of risk treatments, escalation of sector risks and any new risks	Monthly
