

LINES OF INQUIRY

FOR A

FY 1987-91

**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**



PHILIPPINES

FEBRUARY 1984

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CDSS

LINES OF INQUIRY

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CDSS LINES OF INQUIRY PAPER

I. Introduction

A. The Lines of Inquiry Paper

The original intention of the Mission was to prepare by January 1984 a new Country Development Strategy Statement (CDSS) for the period FY 1986-1990 which would incorporate the resources and objectives of the Economic Support Funds (ESF) program as well as those of Development Assistance (DA) and P. L. 480. In late 1983, however, AID/Washington and the Mission decided to postpone for one year the preparation of a new CDSS. There were at least three reasons for this decision. First was the fact that the content of the ESF program for the 1985-89 period was not negotiated as part of the April-May 1983 military bases review, as was initially expected. Those program negotiations through a sub-committee co-chaired by the AID Director and the Deputy Director General of the National Economic Development Authority (NEDA) as representatives of their respective Ambassadors are still going on. Secondly, and even more important, a politico-economic crisis has hit the country and it will take time and sustained analysis to sort through its longer term implications. Finally, additional implementation experience during 1984 with our ongoing but still new and experimental DA and ESF activities will help guide program choices, both of methodology and technical content, during the CDSS period.

Thus, the document in hand is not a strategy statement for the USAID program in the Philippines in the FY 1986-90 period but rather an exposition of why and how we plan to prepare one by early 1985 to cover the period FY 1987-91. It describes the Mission's current strategy and our perceptions of

how it is evolving. Economic factors which are influencing this evolution are emphasized, and described at length in an annex. Interim program directions for FY 1984-86 are described and our anticipated direction for the CDSS period is presented. A new core program in energy is proposed and also described at length in an annex.

Finally, we present lines of inquiry which we need to follow over the next several months to obtain the data for a revised strategy. A work plan for accomplishing the lines of inquiry is also annexed.

B. Development of the Current Program, 1980 Through 1983

The FY 1982 CDSS submitted in January, 1980 and three subsequent updates proposed and described a new direction for AID assistance to the Philippines in the 1980s and beyond. The strategy is based on a careful analysis of the dimensions, nature, and determinants of poverty in the Philippines. It led to a re-orientation of the Development Assistance Program and influenced the types of programs developed under the Economic Support Fund. The strategy sets sustained and more productive employment for the rural poor as its overall assistance goal and identifies three supporting strategy objectives:

1. the creation of more jobs in rural areas;
2. the attainment of higher productivity among those already gainfully employed; and,
3. the reduction in the rate of growth of the labor force.

To help the Philippines meet these objectives, the Mission developed four core DA programs: fertility and infant mortality reduction, rainfed resources development, rural private enterprise development, and local

resources management. Because the problems which these programs seek to solve are complex, and our knowledge of specific solutions is limited, the Mission developed a rolling design approach for these programs. This allows for adjustments in project level objectives, inputs and outputs in response to changing conditions (both internal and external to the program itself) and to the lessons learned from earlier efforts. The flexibility maximizes our ability to respond to and encourage significant policy changes. It also permits us to be responsive in both an operational and a program way to a development environment changed by conditions such as the current economic and financial crisis.

Meanwhile, the Economic Support Fund program evolved in response to broader objectives related to the presence of U.S. military facilities in the Philippines. The program concentrates on establishing projects which are quick disbursing, highly visible, and which have an impact in the areas near the military bases. The consequence is a current ESF program focused on nationwide construction of schools and roads, the development of nonconventional energy resources, public market construction in major regional centers, and the local infrastructure needs identified by municipalities and provincial governments in the areas around the major U.S. Military installations.

Between 1980 and 1983, the DA strategy maintained its long-term focus on productive employment through developing and expanding the four basic programs. These are long-term endeavors which seek to foster an environment in which more productive employment will be generated. This involves changing policies, strengthening public and private sector entities which create new

jobs in rural areas, and increasing research on factors influencing productivity. On the other hand, the ESF program focused largely on the medium-term development requirements of government investment in basic rural infrastructure, much of which is necessary for future productive efforts.

In the analysis for the FY 1985 CDSS, submitted in January 1983, the Mission reexamined its basic CDSS objectives. In doing so, we concluded that our focus on productive employment as the single most important development problem facing the Philippines was appropriate and deserved continued attention. We also reviewed in some detail the relationship which the program has with the Agency's emphases on policy dialogue, institution building, technology transfer and the private sector. At that time, our expectations for 1983 included a clear resolution of how the ESF portion of the amended bases agreement would be programmed and a positive response by the economy to the policy changes associated with the IBRD's structural adjustment loans and the IMF's stand-by agreement. Given the dramatically different picture we face in 1984, we intend, during the year, to reassess our current country strategy and to update approaches to it. The country's economic problems are discussed next in Section II.

II. The Current Economic Situation and Its Implications for Development

The Philippine economy is currently in crisis, the most immediate cause of which was the assassination of former Senator Benigno Aquino on August 21, 1983. This promoted a rapid outflow of capital and a virtual cessation of new investment and loan inflows. By October 1983, international reserves were equivalent to less than one month's imports and international obligations.

could not be met. Therefore, the Government called a 90-day moratorium on paying the country's commercial debts and allowed a 21 percent depreciation of the peso against the U.S. dollar.

On the surface, this situation appeared to be related mainly to the Aquino assassination. However, more careful assessments by many experts in government, universities and private research indicate that a crisis of some proportion was in the making, in any event, due to inappropriate or unsuccessful economic and financial policies over a span of many years. Essentially, the peso had been allowed to remain overvalued and interest rates kept low while import substitution was being fostered in the 1960's and 1970's. Further, priority public investments were made in more visible urban and industrial infrastructure rather than in the potentially more productive rural, agricultural areas. The investments were financed primarily from abroad due to low domestic resource mobilization and easily available foreign commercial and official credits. Also, state-like monopolies and monopsonies were created in important commodity sectors and favoritism allegedly influenced many economic decisions. These policies created a highly import-dependent economy built on foreign borrowings with an industrial sector that had to be greatly protected because it was inefficient in a purely competitive environment.

The Government finally recognized that the economic and financial policies were inappropriate for the country's long run economic viability. Therefore, it embarked on a multi-year Structural Adjustment Program in 1980 to begin to correct the distortions that had been created in the economy. (A separate discussion of this program has been provided to AID/Washington).

Unfortunately, the Government moved too slowly in implementing necessary policy reforms for the creation of a positive economic environment which would bolster people's confidence in long-run growth prospects. The worldwide recession in 1980-82 was deeper than anticipated, leaving the economy unable to start the transition to a more competitive environment in the industrial and agricultural sectors with proper relative prices for inputs and outputs. In addition, export earnings were not growing fast enough to handle an increasing debt-financing burden. Thus, a crisis was in the making with foreign exchange availability becoming a problem even before the assassination of former Senator Aquino.

Nevertheless, the assassination both precipitated and worsened the crisis. To cope with immediate problems the GOP has: 1) entered into negotiations on a new IMF standby credit agreement to supersede the now abrogated agreement of early 1983; 2) asked international bank creditors to extend the debt moratorium for another 90 days beyond January 16, 1984 to permit continued negotiations on restructuring loans maturing in 1984; 3) requested a meeting of the Paris Club to discuss government-to-government debt repayment; and, 4) requested the IBRD, ADB and Japanese Government to convert some of their assistance to program-type commodity import financing. (Annex I provides a more detailed description of the recent economic events.)

The situation has remained unsettled due to the inability of the IMF and bank creditors to come to an agreement with the Government on a program of policy reforms to correct the foreign exchange shortages and other conditions which contributed to the crisis. Data problems have resulted in continuing

revisions of the proposed agreement. Until an agreement is reached there will be significant short-term dislocations resulting from the lack of foreign exchange. In particular there will be plant lay-offs in the industrial sector due to raw material shortages; imported grain shortages for both human consumption and animal feed, leading to price increases throughout the food chain; runs on financial institutions due to general uncertainties in the political economy; and a continuing deterioration in the overall investment climate. Even following an agreement with the IMF and commercial bankers the availability of foreign exchange and interested investors will very likely be seriously constrained, requiring revision in both public and private expectations for future growth and development. Right now there is a very pessimistic attitude on the part of many competent observers about the ability of the Government to come to grips with the fundamental economic issues which need to be resolved.

The IMF may approve the new standby credit agreement in the spring of 1984 if the GOP, the IMF and the international creditors can agree on a new financial plan for the country. Two major elements of an agreement with the IMF appear to be a more flexible exchange rate system and an austere GOP expenditures program to ensure that the overall budget deficit in 1984 is reduced to P6.5 billion (about 1.5 percent of GNP) from the previously targeted level of P8.2 billion. A flexible exchange rate will have significant price implications for this import dependent economy. A reduced budget deficit will require firm prioritization of investment outlays to achieve the most efficient use of available resources.

An austerity budget and related government responses to the crisis will cause a hiatus in implementing the GOP's current Five-Year Development Plan and structural adjustment program until the level of resource availability is reassessed and new priorities established. Clearly, government budget support for many operational, maintenance and investment activities will be greatly reduced. In particular, the government's capital budget is expected to be cut significantly throughout the crisis and the portion for equity contributions to government corporations dramatically slashed. For example in the 1983 budget equity funding was reduced 51 percent to P4.0 billion. In 1984 the reduction was from a planned level of P4.5 billion to P3.5 billion. The equity amount appropriated in 1984 for the National Electrification Administration alone was cut 80 percent to P100 million. Public corporations which depend on these capital infusions will be forced to increase their product prices or cut costs to stay afloat. It will also mean that the implementation of capital projects either will move more slowly, thus delaying the receipt of expected benefits, or they will not be funded at all.

The initial reaction of the World Bank and Asian Development Bank has been to reaffirm their intentions not to move away from agreed-to long-term goals which continue to be directed at many of the country's most fundamental development problems. These banks as well as other donors are, however, sympathetic to the short-term economic and financial problems being faced by the Government. They are looking for new ways in which their current programs can be restructured or reoriented to help the GOP overcome immediate shortages in foreign exchange and local currency support for donor supported projects. The USAID/Philippines approach is similar. Further, most donors, including

the Mission, are looking for ways to assist the government in reassessing priorities and identifying available resources so that decisions can be made concerning revisions to the Government's longer-term development plans. The following section describes what is happening now in our program as well as expected changes during the FY 1984-86 period leading up to the time covered by the next CDSS.

III. Program Directions for FY 1984-86

The Mission's program is changing, within the confines of our overall DA strategy and ESF program, in terms of both what we are doing and how we are doing it. We reviewed operating procedures in both the DA and ESF programs to determine if there were changes that could be made to be responsive to economic and financial realities in the Philippines. We were able to expedite the dollar transfers under the existing ESF program by working closely with the GOP to resolve some implementation constraints. We also noted where the GOP was slow in requesting dollar reimbursements under the DA program, and we are working with the Government to speed up its processing of requests. Further, we reprogrammed the \$50 million FY 1984 ESF obligation for a schools and roads program which is supportive of the objective of both short-term and long-term productive employment. In addition, this program can disburse the peso equivalent within one year, which, under the current financial arrangements, allows the immediate transfer of dollars. These adjustments were the most rapid way to respond to the present situation.

The Mission had begun to modify what it did even before the current economic crisis. Recognizing the pervasiveness of poverty and the

deterioration in the general economy, we have shifted away from direct targeting on the poorest groups, toward activities which encourage the establishment of an environment for more broadly-based growth in productive employment. In this way, we hope to have a wider impact. We have relaxed our past explicit geographic focus for DA funding based on poverty criteria to recognize the potential complementarity and flexibility of our ESF resources and to take advantage of opportunities for promoting productive employment in all areas outside of Metro Manila. However priority is still being given to areas where substantial and widespread poverty remain. We have increasingly looked to the private sector for possible solutions to many current problems, thereby reducing pressure on Government budgets.

A further change will be the introduction of program assistance under ESF II for FY 1985. The current ESF I program does not permit this type of assistance, but up to 50 percent of the new ESF II package is planned to be in this form. The concept of program assistance was proposed prior to the start of the military bases agreement review, in part, because of limited Mission staff, but it will also allow the Mission to be more responsive to GOP macroeconomic problems. The Mission and GOP are developing a Rural Productivity Support Program (RPSP) under the program assistance concept to provide budget support, related to local cost financing in CY 1985, for selected ongoing IBRD, ADB and other projects which contribute to more productive employment in rural areas. A transfer of up to \$47.5 million under the RPSP is planned for early FY 1985. The projects selected will be those to which the GOP has already made commitments and which are incurring costs but whose benefits have been delayed because of insufficient local currency

resources. This injection of ESF budget support will thus serve to speed up inflows of other dollar resources and benefits from the completed projects.

The remainder of the FY 1985 ESF II program will continue to fund activities already initiated under the existing program. This includes assistance for market construction, rural energy development, and construction of infrastructure in rural municipalities and provinces. The content of the FY 1986-90 ESF program is under negotiation now and we are waiting for the GOP to propose a set of guidelines for this part of the program. Rural development and employment concerns still seem high on the list of Government priorities.

Unless the lines of inquiry conclusions should direct us otherwise, DA activities during FY 1984-86 will focus on the core program areas of the current CDSS. The Rainfed Resources Program will continue rainfed farming systems, agroforestry and fish stock assessment activities, and policy analysis while initiating new activities in rainfed agricultural research and upland access. The Local Resources Management Program will start new rural finance interventions while continuing to promote better development planning and resource mobilization at the provincial and municipal levels. Our assistance to improve local revenues is a particularly timely intervention by our program as national government contributions to local government will surely decline during this period of budget constraint. The Rural Private Enterprise Program will continue to increase productive rural employment by promoting free market forces and supporting policies and programs which stimulate development of efficient enterprises. Under the Fertility and Infant Mortality Reduction Program the Mission will continue to support family

planning activities and the development of innovative community approaches to primary health care financing while new biomedical research activities may be initiated to improve methods of reducing infant mortality.

Energy Development is proposed as the fifth core program. Energy activities have been in the Mission's program since the Nonconventional Energy Development Project started in FY 1978. In FY 1982, an ESF funded program was added for wood-fired power plants, charcoal production, and conversion of wood to producer gas for powering diesel irrigation pumps. The Energy Development Program during the FY 1984-86 CDSS period includes: the FY 1984 Energy Technology for Fisheries Project to promote the use of fuelwood for powering fishing boat engines and ice producing facilities to preserve the fish catch of small scale fishermen; and, the FY 1984 Technology Transfer for Energy Management Project to stimulate the adoption of energy efficient technology in the modern sector for increased productivity and to lessen the demand for oil imports. A centrally funded project, Technical Assistance in Coal Development, also to begin in FY 1984, will focus on enhancing the production and encouraging the consumption of coal as a means to replace imported petroleum. At this time, no new Mission activities are planned for the DA account in FY 85 or FY 86. Additional ESF energy activity will depend on current negotiations as well as experience with the current portfolio. (A description of our energy strategy and program is provided in Annex II.)

In support of the five core programs as well as to provide flexibility for response to new areas and current developments, the Mission will continue to finance policy analysis/dialogue and training activities designed to improve our and the GOP's understanding of the development environment. The

housing guarantee program will be explored for its relevance to our country strategy and for its potential use in the Philippines. PVO-initiated development activities will be supported. Our relationship with PVO's continues to provide information and ideas about ongoing and new development problems, and innovative solutions to tap private initiative and enterprise. The PL 480 Title II Food for Peace Program will move toward the FY 1987 phaseover to GOP financing. However, food assistance in the interim period may be adjusted to respond to the present financial and economic situation, and may include Section 416 and Title I proposals in addition to an adjusted phasedown schedule for Title II.

Although our current portfolio has been responsive to a changing economic and political environment, the response has been largely modifications, on the margin, of our present strategy. In order to develop a new statement about our strategy for the next planning period it will be necessary to step back and objectively reassess the basic strategy. This process is described in the next two sections.

IV. Anticipated Program Influences on the FY 1987-91 Strategy

The lines of inquiry described in Section V below, adjusted as necessary over the next several months to respond to the political and economic situation, constitute the reassessment necessary to produce a full CDSS by January, 1985. We do not expect this reassessment to alter drastically the basic program interests of the Mission since we believe that our objectives of increasing productivity, increasing employment and reducing the rate of growth of the labor force will continue to be absolutely central

to the Philippines' development problems in both the short- and long-term. Furthermore, we believe that the five core programs, broadly and flexibly defined, comprise the major areas of feasible program interventions that will achieve our objectives. However, this belief will be tested and assessed through the lines of inquiry described in Section V below which may lead to the identification of major new areas for program concentration.

We also expect this review to have important implications for both operational and resource allocation aspects of the program. For example, shifts could be made in expenditure patterns within the broadly defined ESF and DA programs now in place, and further adjustments could be made in implementation procedures. Such adjustments would be made to insure the maximum responsiveness possible within our system to the short- and medium-term problems which the country faces without losing sight of the critical development importance of the specific program areas already identified for emphasis.

We expect the program's geographic focus to continue on areas outside of Metro Manila. Economic forces, infrastructure investment, and a history of centralization have tended to attract a disproportionate amount of development investment to the capital area, even though other areas may have greater development potential. The per capita income level in Metro Manila is over twice that of any other region. In addition, equity, decentralization, and shifting of development investment away from Metro Manila are stated GOP development goals. For these reasons, it seems inappropriate for AID to focus on development of the capital area. Instead, our greatest concern should be on rural areas and regional cities which have development potential and may help counter-balance the overcentralization in Manila.

Lest we think we will have all the ingredients by January 1985 to prepare a definitive CDSS for the FY 1987-91 period, it is important to point out that the current ESF II agreement, on a best effort basis, consists of \$475 million during the period FY 1985-89 at the rate of \$95 million yearly, in other words, for only three of the five years to be covered in the CDSS planning period. We cannot speculate on the magnitude or content of ESF III, should there be one, for those last two years without stepping far beyond the authorities of an AID Mission. Nevertheless, we will have to make certain assumptions about levels in all of the possible funding accounts potentially available to the Mission. To some extent, this will result from the various lines of inquiry but our preliminary expectation at a minimum is to straight-line DA funding and US Direct Hire staff levels.

V. Lines of Inquiry for Developing the FY 1987-91 Strategy

We have identified several analyses and studies fundamental to understanding the changing economic environment, the new development responses appropriate to that change, and the relationship of our present programs to this altered environment. There are likely to be additional lines of inquiry which have not yet been identified but which will flow from the results of studies identified herein. These will also be incorporated into our plan of action as we proceed, time permitting.

We assume that by mid-1984 the GOP will have an agreed upon policy program to address the issues raised by the current economic crisis and begun corrective action such that we can discern important trends and impacts to be expected during the CDSS period. This will require that basic data be available in a timely fashion. We may find the situation still somewhat

unsettled as we carry out our analyses. Therefore, we can expect that there may be only partial answers to some questions as we prepare the new CDSS by early 1985.

We are undertaking two levels of inquiry. The first level comprises studies and analyses which deal with macroeconomic and intersectorial issues that will define the development setting during the FY 1987-91 CDSS period. These studies will provide outputs needed: 1) to test the relevance of our present strategy objectives to the new economic environment; 2) to examine the appropriateness of establishing new goals and objectives for that period; and, 3) to determine if totally new programs need to be undertaken outside the existing core areas.

The second level deals with additional analyses needed within our core program areas. Based on the analyses from the first level, we have to reaffirm the relevance of each core program in the new macroeconomic setting and determine if modifications are needed within the existing areas of involvement or if new activities should be added. Many of the inquiries at this second level will be carried out as part of our ongoing analysis under the core programs. These programs have established a "process" or system which has the capacity to analyze and learn from project implementation experiences in order to design subsequent activities to be carried out under the program. Essentially, this means that useful and successful activities can be continued (perhaps even expanded), unsuccessful activities can be terminated or modified, while new activities identified during the process can be designed and put into implementation.

A. First Level: Macroeconomic and Intersectorial Inquiries

From the Mission's viewpoint, several important interrelated macro-level questions must be examined. These are:

(1) what specific set of policy changes should the Government undertake to address the short-term economic crisis and continue to correct for the long-term structural deficiencies;

(2) what impact will this crisis and the policy changes taken have on the country's development prospects during the CDSS period; and,

(3) how will this impact affect the Mission's strategy and the programs we have underway to achieve our objectives.

The first question will be answered essentially by the analyses in the IMF's Stand-by Agreement and in forthcoming IBRD documents related to its program assistance. We expect these analyses to cover the short-term problems during 1984-1986 in detail. This should include exchange rate, monetary and investment policies, growth rate and budget deficit targets, and a gap analysis of foreign and domestic resource availability and needs. The analyses in these documents for the time period of our CDSS is not expected to be very explicit or detailed, but we expect that the basic policy framework affecting this period will be outlined. If any of the above documents are unavailable, we believe that public sources will provide sufficient essential details for us to continue our lines of inquiry.

The two remaining questions will serve to define the changing development setting within which our program must operate. Therefore, the Mission will undertake two specific lines of inquiry at the macroeconomic level to analyze the constraints under which the Government and AID will be

operating and to find an optimal strategy and program for the FY 1987-91 period. The two studies are as follows:

1. Based on the policy thrusts identified in the IMF, IBRD, and GOP analyses mentioned above, the Mission will assess the constraints that these policies might place on the continuation of current GOP development plans or how the plans may be modified. We have an early indication that the Government intends to revise its Five Year Development Plan to put greater reliance on domestic resources and markets. Rural development and labor intensive technologies, both off farm and on, will receive greater priority. Small scale industry, low cost housing and domestic energy generation will be stressed. These revised development plans will also be factored into our analysis.

The conceptual framework for this analysis is proposed to be an examination of the foreign exchange and domestic savings resource constraints to the country's development during the period of the CDSS through the use of the Chenery-Strout two-gap model. Once the resource constraints are known, the potential impact on development can be assessed and then the fundamental development problems identified. Within the parameters of this analysis we will address the issues of: availability of budgetary and external resources; sector priorities for these resources; how priorities for budget allocations are determined; and, the implications of probable resource allocations for growth prospects in industry, agriculture, and services, as well as in urban versus rural areas. Other donor programs and priorities will be reviewed to determine the total level of available resources and associated conditions.

The purpose of this inquiry is to determine the effect of the Government's policy reform package on the country's development prospects and to ascertain if new problems will emerge as important constraints to more rapid economic development. This line of inquiry should be completed by July, 1984.

2. The second inquiry will ascertain whether the country's development prospects identified in the first inquiry would require fundamental changes in the Mission's current strategy or its execution within our funding and operational constraints. This study will take a fresh look at the Mission's current goals and objectives and our general approach to its execution, indicate whether the strategy is still valid under the conditions expected to exist during the CDSS period and whether the method of achieving our objectives is still the most practical. The Mission will also examine how policy or program changes adopted by the GOP or recommended by the IMF and IBRD might be reinforced by existing or new AID programs. This inquiry will tell us the importance of poverty and employment issues under changing economic conditions and whether probable solutions continue to lie in the program areas outlined in our current CDSS. It will be necessary to address DA and ESF funding constraints and their effect on possible responses to economic problems. The effect of Agency policy and procedural guidance and likely staffing constraints must be considered as well.

In sum, these analyses will determine whether the Mission's strategy should be recast, the rationale for the decision(s) reached and the general areas, if any, where modifications are indicated. Drawing from this level of analysis, the program specific studies described below will assess

modifications, addition, and/or deletions indicated for each core program area. This inquiry should be completed by October, 1984.

B. Second Level: The Core Programs

Fertility and Infant Mortality Reduction Program

A primary objective of the Mission strategy is the reduction of the rate of growth in the labor force. Achievement of this objective requires reductions in infant and early childhood mortality rates as well as fertility rates. Evidence from the Philippines and elsewhere suggests that high infant and early childhood mortality is a primary determinant of high fertility.

The essential factor in reduction of both fertility and infant mortality is the ready availability of family planning and selected maternal-child health services at the village level. The principal constraint to providing these services is the availability of financing for recurrent costs of primary health care. Our current strategy addresses the dual objectives of overcoming that constraint by identifying how community resources might be mobilized to provide such financing while simultaneously assisting the institutionalization of a strong family planning program.

It is now necessary to incorporate lessons learned over the past several years into a revalidation and refinement of our strategy in the face of a resource constrained environment now and for the next several years. The specific studies needed are as follows:

1. The primary inquiry will be into the impact of the current economic crisis on our program to reduce fertility and infant mortality. This will require several analyses. We need to assess the ability of the Government to carry out planned programs in family planning and infant/child health services

in the face of probable future budget constraints. This analysis is made all the more urgent because of early indications from the 1983 National Demographic Survey that contraceptive prevalence has not increased despite investment of substantial GOP and donor resources in the current program. Further, we must know what the effect will be of expected increases in unemployment on the nutritional status of infants and young children and how might this affect our program. Also, it will be useful to determine if our resources should be used to assist in short-term feeding programs. Lastly, we will assess what the long range development implications are for population growth as a result of the economic crisis and the Government's responses.

This inquiry will draw on information available from on-going projects and other sources as well as the conclusions from the macroeconomic studies. In addition, we plan to review and synthesize the findings of the World Bank's Health Sector Assessment, the 1983 National Nutritional Survey and other specific studies to identify additional activities that might be appropriate, or modifications that might be required in the current strategy. Since inputs are required from the macroeconomic studies this study can be finished at the same time in October 1984.

2. A more specific study will determine the feasibility of providing support to research into new techniques for diagnosing, treating and preventing diseases contributing to infant and early childhood mortality. Diseases affecting labor-force morbidity may also be included to a limited degree. This inquiry can be completed by May 1984.

3. A second specific inquiry will be directed to assisting the Government in the development of a comprehensive national action plan for

expanded use of oral rehydration therapy. In the process the type and amounts of assistance, if any, to be provided by the Mission will be determined. This can be completed by May 1984.

Rural Private Enterprise Development Program

Another major Mission strategy objective is the generation of productive employment in areas outside Metro Manila. Our primary approach to this objective has been through a project directed at private enterprise development for small to medium enterprises (SME). We are also aware of the relationship between this objective and our ESF program which in the short run is providing jobs for construction contractors in rural areas as the ESF projects are implemented, and in the longer run will, in some cases, provide considerable infrastructure in support of enterprise development. The SME project has just started and will be funding many research activities of a policy and practical nature. The Mission has a good understanding of the private sector's role in the Philippine economy and is investigating opportunities for possible intervention in areas other than SME development, such as assistance for divestiture efforts and agribusiness development.

In revising our strategy for the FY 1987-91 period our lines of inquiry over the next several months will take the form of three specific studies:

1. The first study will assess how rural small and medium scale enterprises expect to survive and grow in the aftermath of the economic crisis. What problems in management, finance, and marketing do they expect to have and what can we do, within our core program, to help solve these problems? What are the policies that appear to be major impediments to investment and growth in these rural enterprises and can we direct project

research funds to addressing these in a systematic way? The study should be completed by August 1984.

2. An analysis of how the current economic events have affected the institutional environment supporting SME development outside Manila will be initiated by the Mission with Science and Technology Bureau cooperation. We will determine the most appropriate approaches to assist indigenous institutions to continue fostering SME growth in rural areas. The analysis should be completed by August, 1984.

3. The effect of rural infrastructure investment on increasing the development of small and medium enterprises needs to be examined. How important is the link and what effect will the current crisis have on the government's ability to support such investment? What alternatives are available to the Mission during the CDSS period to assist the government in continuing to keep a high priority on these investments if it is determined that there is an important link between them and the creation of productive employment. A study addressing these issues should be completed by November, 1984.

Rainfed Resources Development and Local Resources Management

Programs

Much of the analysis related to agriculture and rural development over the next year will be carried out under the Rainfed Resources Development Project (RRD) and the Local Resources Management Project (LRM). These projects constitute the major interventions of the Mission in the respective program areas, outside of the substantive ESF resources that are indirectly providing infrastructure and budget support for rural programs in general.

The broader issues of the overall allocation of resources between sectors and the general impact the current economic crisis will have on agricultural and rural development will be addressed in part by the World Bank and by the macroeconomic lines of inquiry.

RRD and LRM have already begun to generate some information relevant to new strategy definition. For example, a study and workshop on macroeconomic policies and their effect on rainfed agricultural development have influenced preparation of initial RRD activity proposals concerned particularly with agricultural policy. Likewise, information gained during the design and implementation of RRD, LRM, SME Development, and Rural Roads II, has led to the identification of two new activities: an upland access component for RRD and a rural finance component for LRM. By adding these two components to our programs we are expanding our strategic approach to the rural/agricultural sector and reflecting a wider set of opportunities and constraints in that sector.

During the year, further new information will become available from RRD and LRM as the consequence of processes already in motion. Both projects will have in place monitoring systems to capture experience and provide for various kinds of analyses, including special studies, to be carried out by implementing agencies and supporting resource institutions. These studies include: analyses of specific poverty groups and constraints to improving their socio-economic status; the problems in increasing access to rural credit; and, an analysis of the potential for increasing local government's real property tax collections and fiscal management. The learning that occurs and analyses to be carried out will increase our understanding of the rural

economy and assist the GOP in refining its rural strategy as well as in programming resources under the national development program.

However, the timeframe for these studies is such that they may not be able to address problems and effects of the present economic crisis. Therefore three additional lines of inquiry will need to be undertaken to help the Missions formulate the CDSS for the 1987-91 period.

1. Based on material available from the RRD and LRM projects and the macroeconomic studies, it will be necessary to examine what we are doing in these program areas, determine whether our approaches are still relevant and how we might better achieve our objectives. If there are indications that the current situation calls for new activities or modifications to old ones, these will be explored to determine the effect on our strategy. This inquiry should be completed by October, 1984.

2. The Mission will also have to understand better the relationship among rural infrastructure investment, including that funded by the ESF program, the support investment provides for the RRD and LRM programs, and the Mission objectives of increasing rural productive employment. This inquiry will help us define possible links between our ESF and DA programs. This study should be complete by November, 1984.

3. Building on the analyses of specific poverty groups mentioned above, we will undertake a study of the differential impact of the economic crisis on socio-economic groups of rural and urban Filipinos. This will help us determine the continued relevance of our programmatic and geographic emphases. Related to this inquiry, we will also seek information on the extent of internal migration resulting from the changing economic environment.

Energy Development Program

The Energy Development Program includes reduction of oil imports as a Mission objective because we believe it affects the likelihood of success of our long-term goal of increased productive employment. The oil import bill is the largest single contributor to the balance of payments deficit and a basic underlying cause of the current economic crisis. Furthermore, continued reliance on imported oil and on inefficient oil consumption practices is a major obstacle to long-term economic recovery. Reduction of this obstacle through improved efficiency in the use of oil and shifts to domestic fuels will contribute to sustained economic growth which is a necessary condition for long-term increases in productivity and employment generation.

The Mission has described its energy strategy as involving both a rural element based on producing and using renewable energy resources, and an urban or modern sector element based on technology transfer for energy conservation. There is a demonstrable linkage between the Mission's energy strategy in rural areas and the Mission's overall objective of fostering productive employment. This is briefly discussed in the Energy Annex to this paper. It is fully demonstrated in the April 1982 project paper and annexes for the Rural Energy Development Project. The relationship between dollar savings from energy conservation (i.e., reduced oil imports) in the modern sector and increased productive employment is less clear but the conceptual link is not hard to make. Nevertheless, this needs to be looked into further.

Therefore, the Mission's lines of inquiry in the energy sector will simply be to examine the relationship between the energy investment program and the direct and indirect impact on productive employment, and to determine what long run strategy the Mission should pursue in the CDSS period.

The various inquiries and studies identified above as required for the preparation of a new CDSS in January 1985 are summarized in matrix form in Annex III in order to lay out our plan of action for completing them. For each of the twelve inquiries the purpose, timeframe, level of effort, source of expertise, and estimated funding is indicated. Upon approval of our proposed lines of inquiry the Mission will submit to AID/W a specific request for Program Development and Support funding to execute the program over the next year. More detailed work scopes and terms of reference for each will be prepared according to target dates indicated in the table.

Annex III: Work Plan for Accomplishing the Lines of Inquiry

Resources needed to carry out inquiries

A. First Level Inquiry	Responsible Office	Timing of Inquiries		Resources needed to carry out inquiries					
		Scope of Work	Execution	Document, Data Inputs	Level of Effort (PM)	Human Resources (% Effort)			
						Mission	PSC	AID/W	Other
1. Impact of economic policy changes on Philippine development prospects.	OD/PE	April	May-July	IMF Stand-by Agreement IBRD Program Doc. ADB Program Doc.	8	25	75		
2. Philippine development prospects' impact on Mission strategy.	OD/PE	June	July-Oct.	Results of above	10	50	50		
B. Second Level Inquiry: Core Programs									
<u>Fertility and Infant Mortality Reduction</u>									
1.a. Impact of economic crisis on GOP's ability to carry out family planning and primary health care programs.	OPHN	March	June-Aug.	PP III Evaluation	15	40		20	40
b. Development implications of population growth.	OPHN	Feb.	Mar-Apr	Scope of Work for population brochure	4	30			70
c. Impact of resource generation for secondary and tertiary health care from private resource on reducing need for large public investments.	OPHN		Sept. 83- Oct. 84	IBRD Health Sector Assessment Impact of economic policy changes.	1	100			
d. Effects of malnutrition on infant and early childhood mortality.	OPHN		April-May	1983 Nutrition Survey	1	100			
2. To determine feasibility of supporting biomedical research.	OPHN	Nov. 83	Dec. 83- May 84	-	4	20			80

Annex III: Work Plan for Accomplishing the Lines of Inquiry

<u>Inquiry</u>	<u>Responsible Office</u>	<u>Timing of Inquiries</u>		<u>Resources needed to carry out inquiries</u>					
		<u>Scope of Work</u>	<u>Execution</u>	<u>Document, Data Inputs</u>	<u>Level of Effort (PM)</u>	<u>Human Resources (% Effort)</u>			
						<u>Mission</u>	<u>PSC</u>	<u>AID/W</u>	<u>Other</u>
3. To determine feasibility and need of increasing our support to ORT program.	OPHN	Feb.	March-May	-	3.5	20		10	70
<u>Rural Private Enterprise Development</u>									
1. Enterprise survival strategies	OCD	April	May-Aug	Impact of economic policy changes	4	10		90	
2. Institutional environment (Private Enterprise Promotion Project Analysis)	OCD	April	May-Aug	IBRD Prog. Doc. ADB Prog. Doc. GOP Revised 5-Year Planning Document	12	40		60	
3. Rural infrastructure investment and its relationship to enterprise development and rural productive employment.	OCD/ORAD	June	July-Nov.	Impact of economic policy changes. GOP Revised 5-Year Development Plan	10	10		90	
<u>Rainfed Resources Development and Local Resource Management</u>									
1. Assess relevance of program approaches of LRM and RRD within context of macroeconomic analysis results.	ORAD	April	July-Oct.	Results of A.1: LRM and RRD experience	1	70			30 (GOP)

Annex III: Work Plan for Accomplishing the Lines of Inquiry

<u>Inquiry</u>	<u>Responsible Office</u>	<u>Timing of Inquiries</u>		<u>Resources needed to carry out inquiries</u>					
		<u>Scope of Work</u>	<u>Execution</u>	<u>Document, Data Inputs</u>	<u>Level of Effort (PM)</u>	<u>Human Resources (% Effort)</u>			
						<u>Mission</u>	<u>PSC</u>	<u>AID/W</u>	<u>Other</u>
2. Relationship of infrastructure development to increased rural productive employment.	ORAD/OCD	TO BE DONE IN CONJUNCTION WITH THE RURAL ENTERPRISE DEVELOPMENT INQUIRY NO. 3.							
3. Impacts on poverty groups and migration.	ODPE/ORAD	Feb.	March-June	Jan. 1980 CDSS and updates, Regional Profiles	5	10	90		
<u>Energy Development Program</u>									
1.a. Relationship of energy consumption to productive employment.	OD/E	April	April-May		2	15			85
b. Energy Strategy 1987-91	OD/E	Sept.	Oct-Nov	Macroeconomic Analysis	1	100			



