

PRIVATE INVESTMENT PROMOTION

FOR THE BICOL REGION
REPUBLIC OF THE PHILIPPINES

Suggestions for Strategy, Program Content and
Organizational Arrangements

Public Administration Service



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January 24, 1978

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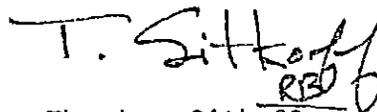
Dear Mr. Bjorlykke:

We are pleased to transmit herewith our report on "Private Investment Promotion for the Bicol Region: Suggestions for Strategy, Program Content and Organizational Arrangements." In accordance with your instructions in cable R 120743 Z, January, 78, one copy of the report is enclosed for your files. The original and one copy have been mailed under separate cover to Don Wadley for reproduction.

The work was performed by Lincoln Armstrong of the Public Administration Service staff. His draft report was reviewed and edited by Raymond A. Bailey, with headquarters supervision by the undersigned.

We wish to thank you, the members of the USAID staff, and the many Philippine public and private sector people who participated in this study for the support and assistance provided over the course of the assignment.

Respectfully submitted,

Handwritten signature of Theodore Sitkoff in black ink, with the initials 'RSB' written below the name.

Theodore Sitkoff
President

PRIVATE INVESTMENT PROMOTION

FOR THE BICOL REGION,
REPUBLIC OF THE PHILIPPINES

Suggestions for Strategy, Program Content and
Organizational Arrangements

Lincoln Armstrong, Sr. Consultant

Public Administration Service
1776 Massachusetts Avenue, N. W.
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December 1977

PUBLIC ADMINISTRATION SERVICE



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Atty. Salvador Pejo
Program Director
Bicol River Basin Development
Program Office
Baras, Canaman, Camarines Sur
Philippines

Dear Attorney Pejo:

On behalf of Public Administration Service (PAS), I am pleased to submit this report on my observations regarding what strategies and action programs may be needed in order to reach the private sector investment targets of the BRBUP as envisioned in its Five and Ten-year Development Plans.

My work has been greatly facilitated by Mr. Antonio Santiago of the BRBDPO and the many Philippine public and private sector informants who gave so willingly of their time and thoughtful consideration to my inquiries and investigations.

It is recognized that this report perhaps raises more questions than it answers and, in any case, that it only opens the door to the much larger tasks that lie ahead. Please do not hesitate to call on PAS if we can be of further assistance.

Sincerely yours,

A handwritten signature in cursive script that reads "Lincoln Armstrong". The signature is written in dark ink and is positioned above the printed name.

Lincoln Armstrong
Senior Consultant

cc: D.F. Wadley, USAID, AD/RD

Abbreviations

ADB	Asian Development Bank
BOI	Board of Investment
BRBCC	Bicol River Basin Coordinating Council
BRBDPO	Bicol River Basin Development Program Office
BUTEL	Bureau of Telecommunications
CCC	Commodity Credit Corporation
CCC-IRDP	Central Coordinating Committee - Integrated Rural Development Program
CB	Central Bank
CB-CI	Central Bank Certificates of Indebtedness
CB-IBRD	Central Bank - International Bank for Reconstruction and Development (World Bank)
CSMI	Commission on Small and Medium Scale Industries
DAP	Development Academy of the Philippines
DBP	Development Bank of the Philippines
DEC	Dept. of Education and Culture
DLGCD	Dept. of Local Government and Community Development
DOA	Dept. of Agriculture
DOI	Dept. of Industry
DOT	Dept of Trade
DPWTC	Dept. of Public Works, Transportation & Communications
FTI	Food Terminal, Inc.
GOP	Government of the Philippines
IAD	Integrated Area Development
IAF	Integrated Agricultural Financing
IGLF	Industrial Guarantee Loan Fund

IPB	Investment Promotion Bureau
IPP	Investment Priority Plan
MASICAP	Medium & Small Industry Coordinated Action Program
NCIDA	National Cottage Industry Development Authority
NEA-IC	National Electricity Administration - Industrial Cooperatives
NCISO	National Census & Statistical Organization
NEDA	National Economic Development Authority
NIA	National Irrigation Authority
NMYC	National Manpower and Youth Council
NSDB	National Science Development Board
PAS	Public Administration Service, Inc.
PDCP	Private Development Corporation of the Philippines
PLDT	Philippines Long Distance Telephone Company
PNB	Philippine National Bank
PPA	Philippine Ports Authority
PSIC	Philippine Standard Industrial Classification
RDC	Regional Development Council
SBAC	Small Business Advisory Center
UP-LB	Univ. of Philippines at Los Banos
UP-ISSI	Univ. of Philippines - Institute for Small-Scale Industries
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

In this report, Dr. Lincoln Armstrong, a Senior Consultant from Public Administration Service, Washington, D.C. presents his findings, conclusions and recommendations regarding strategies and action programs required for stimulating private investment in agribusiness; small and medium scale processing, manufacturing and service industries; and in large scale industrial projects in the Bicol Region.

The approach taken emphasizes in-depth informant interviews with over sixty GOP line and specialized agency officials, bankers, businessmen and potential entrepreneur-investors in the Bicol and Manila, plus intensive reading of critical background documents over a six-week period.

Following a general summary of the qualitative content of the informant interviews, the present status of private investment promotion in the NEDA-BRBDP program is reviewed and a conclusion drawn to the effect that sufficient, if not excessive attention is being given to the strategy of developing near-investment grade agribusiness feasibility studies to be provided to potential investor-entrepreneurs for implementation. The consultant cautions that, regardless of the level of the study provided to potential investors, they will have to do their own "investment grade" studies in final analysis.

Furthermore, the consultant perceives an urgent need for a much more sophisticated comprehension of the nature of problems inherent in private investment mobilization than has been exhibited by Bicol regional development planners to date. Specifically, but not exclusively, an in-depth scientific survey of Filipino investment attitudes, motivations and behavior is recommended.

The major "needs" that must be satisfied in order that a significant level of private investment may be stimulated are identified as:

1. Immediate initiation by BRBDP and NEDA Region V Office of actions which are required for the establishment of an Investment Promotion "Bureau" (IPB), ultimately to become an operational-executing arm of an appropriate agency of Bicol Regional Government, perhaps the Regional Development Council (RDC), or whatever agency may be established to administer a Regional Development Fund (RDF).
2. A policy study on establishing a Bicol-wide private development bank, corporation or fund exclusively for Bicol investment projects.
3. Early development of IAD V (Pasacao area) for Bicol River Basin Development.
4. Intra-regional telecommunications pilot project.
5. Improving the Bicol data base and business intelligence system for private sector project planning and monitoring of results.

6. Improvement of the Bicol educational system.
7. Improvement of housing, recreational facilities and other amenities.

Strategies are set forth for each area of need. Where the major factor inhibiting implementation of a private sector project is the completion schedule for a public sector physical infrastructural project, three options are identified:

1. Adaptation to the fixed schedule;
2. Seek reprioritization within the schedule; or
3. Try to implement the supportive infrastructural project by some alternative contracting and sourcing of funds, perhaps with private sector participation.

Ultimately, the IPB should have its headquarters in Legaspi and a branch office in Manila. The head of IPB should be a prominent retired business executive type, to whom all doors are open. At the top of professional staffing, each office of IPB should have a communications generalist and a reportorial investigator trained in social science research methods. In addition, the headquarters office should have a minimum of a project economic and financial analyst, a marketing micro-economist, and an industrial engineering generalist.

The core of IPB should be established in 1978. That is, its headquarters chief, communications officer and reportorial investigator should be appointed as soon as possible. At this early stage, its logistic support and base of operations should be provided by BRBDP in Naga.

The functions of IPB should include:

1. Designing and implementing of Bicol promotional media campaigns.
2. Acting as catalyst to, and stimulating potential investor-entrepreneurs, and financial and technical assistance intermediaries.
3. Coordinating with and assisting other business development promoters and programs.
4. Packaging and publicizing simple prototype pre-feasibility studies.
5. Developing a specialized data base and intelligence system on business development in the Bicol.
6. Undertaking of policy studies with regard to innovative means for stimulating private investment in the Bicol.

A professional Filipino consultant, perhaps backed up by a foreign consultant, is seen as required to guide development of IPB through its gestation period. An inter-agency task force should be established at

once to assist in the development of the IPB.

Some project development specialist/consultants that should be recruited early-on are suggested:

1. A cottage industries specialist with U.S. and European market and marketing knowledge and/or an export information systems specialist.
2. A mini-industrial estates development specialist.
3. A development banking specialist with small and medium scale industry banking experience, perhaps a South Korean.
4. An organic fertilizer industry specialist.
5. A telecommunications systems specialist.
6. A sea-farming specialist for the Sorsogon area, primarily.

The strategy for establishing a private development fund for the Bicol calls for a comparative pre-feasibility study of six alternative approaches, including creating a Bicol-wide development corporation based on a consortium of Savings & Loan Association banks or of private commercial banks; establishment of a Manila-based Venture Fund managed by a management contracting company on a fees against performance basis; and establishment of a small and medium scale industry development banking facility.

The strategy for Pasacao area development calls for aggressive promotion of private sector participation at once, as is also true for development of Bicol intra-regional telecommunications on a pilot project basis.

The main strategy for improving the Bicol regional data base and economic intelligence system is by providing direct assistance in the form of data collection manpower and consultants to the directly responsible data collection agency.

Establishing or expanding a major Bicol university to focus on regional development should be explored further. Inviting the University of the Philippines (UP) into the Bicol by a merger route is suggested as a practical near-term strategy for improving the quality and regional development focus of university level education, and of its image. Full cooperation with the National Manpower and Youth Council (NMYC), the statutory agency for skills training policy making and programs coordination, is suggested as the best strategy for improving skills training in the Bicol. NEDA-BREDDP should create an education and training coordinating office within its organization.

The Bicol River Basin Coordinating Council (BRBCC) should consider expanding its membership to include the regional directors of the key line agencies responsible for promoting private-sector investment.

PRIVATE INVESTMENT PROMOTION
IN THE BICOL REGION¹

Introduction

At the request of the Bicol River Basin Development Program Office (BRBDPO), Public Administration Service (PAS) was engaged by the U.S. Agency for International Development (USAID) to assist BRBDP to develop a strategy paper and program of action to improve private investment incentives and to stimulate a more rapid rate of private investment in agribusiness, processing, manufacturing and other rural based industries in the Bicol with initial emphasis on the core BRBDP area.

A Second stated objective for PAS was "to improve staff capability of the BRBDP office and of participating agencies to achieve the first objective." It was assumed that these objectives might require several months or perhaps a year or more to accomplish, but that an individual short-term, interim, consultant might, within a few months, be able to define the situation with regard to the first objective and make some actionable suggestions regarding the second objective.

Indeed, this short-term consultant's first recommendation is that the BRBDPO and the NEDA Region V Office immediately initiate actions which are required for the establishment of an Investment Promotion "Bureau" (IPB), ultimately to become an operational-executing arm of an appropriate agency of Bicol regional government, perhaps the Regional Development Council (RDC). A professional Filipino consultant, perhaps backed up by a trained and experienced foreign expert, should be recruited to assist in the development and early implementation stages of this project, and an inter-agency task force should be organized for the same purpose.

The report of the short term consultant provided by PAS follows below. His assignment was for a period of approximately two months commencing November 1, 1977. He has been ably assisted during all of his investigations and inquiries by Antonio Santiago, economic officer for the BRBDP and C. S. Callison, economist/planner from the USAID Office of Regional Development. However, the consultant assumes sole responsibility for all conclusions, recommendations, and errors of omission or judgement as may be found in this report.

The Approach

The approach taken by the consultant was to try to read everything critically related to the problem at hand, namely, stimulation of private investment; and to conduct in-depth interviews with as many concerned and/or involved persons in Manila and the Bicol Region as time would allow. (Aee Annex A) Between November 3rd and December 10th, over

¹This technical paper truly represents the views of its author, Dr. Lincoln Armstrong, but not necessarily those of the U. S. Government or of the Government of the Philippines.

sixty interviews were conducted involving over eighty government officials, public and private sector bank officers, BRBDP and USAID staff, and private sector businessmen and potential investors.

Usually, in each interview situation, the respondents were reminded that the GOP, assisted by various donor agencies such as AID, World Bank, and ADB, is trying to create more employment and raise standards of living in the poor regions of the country. To date, in the Bicol, this effort has, and is, taking the form of physical infrastructural projects such as road building, improving ports and the railroad, in irrigation and water control projects, and in concessionary credit programs to help people increase production. All of this infrastructural input is intended to create a favorable environment for private investment in new productive enterprises or expansion/diversification of old ones. It would be pointed out that an estimated two-thirds of 6.5 billion in investments needed over the next ten years to reach employment and other socio-economic targets for the Bicol must come from the private sector.

Generalized Interview Findings

Following the introduction described above, the ensuing discussions almost invariably:

- 1) identified additional physical infrastructural requirements or the need for further development of on-going infrastructural projects before significant private investment can be anticipated;
- 2) identified perceived constraints and disincentives such as:
 - a) "the non-adventurous personality of the typical Bicolano",
 - b) "the isolation of Bicol from Manila where all decision-making is done",
 - c) "accessing government bank incentive lending programs is too time consuming, complicated, and costly to be of practical use to private businessmen" (Frequently, corruption was also mentioned),
 - d) "the typhoons which devastate the Bicol's basic agricultural economy periodically",
 - e) "the propensity of bureaucrats and technocrats to plan forever, and never to act",
 - f) "the meaninglessness of fiscal incentives which are inaccessible to small scale Bicol entrepreneurs, or not worth the trouble and cost of trying to access them",
 - g) "the incredibly inadequate transportation and communications system",

- h) "the collateral-oriented conservatism of the bankers"
- i) et cetera;
- 3) unveiled a deep sense of frustration among intelligent, seemingly progressive minded entrepreneurs. To quote one: "Serious businessmen don't bother waiting for GOP project approvals. They apply for registration toward qualifying for incentives, then go ahead as fast as possible before their feasibility study is sold to someone else. If, ultimately, their application is approved, they can treat the proceeds as gravy. The point is, never get involved in a project whose ROI depends on government fiscal incentives." Or there are the Rural Bankers who assert that, "the farmers don't pay off their loans because they don't think of the money as being theirs, or their neighbors'. They think of it as belonging to the government or some donor agency. So why pay?". And the commercial banker who notes that, "the Central Bank wants us to get involved in small farmer financing. But how can we provide supervised credit with only a 5% spread on a loan of, say, 5000? We can't, of course, and so we buy CB-CIs on which we earn 9% to 10%, and then watch in horror as the proceeds come back through the rural banks at a cost of only 3%, or 1% rediscounted, and still the rural banks are not able to provide adequate supervision;"
- 4) identified new private business activities and investments in new industrial projects regarding which no official record appears to be being made. It is extremely difficult to obtain any solid information about what is actually happening in the Bicol private sector, but unmistakably, things are happening: Japanese investors in partnership with local investors are undertaking several significant projects in Albay Province, motor vehicle sales are rapidly increasing, banks are opening new branches, ten forty-foot containers of handicrafts are being shipped weekly from Legaspi direct to foreign customers, BANCOR Development Corporation has recently opened an office in Legaspi, a wealthy local entrepreneur is investing heavily in the isolated and dilapidated Pasacao port area, a group of local entrepreneurs are in the final stages of establishing a Private Development Corporation in Camarines Sur. Thus, in spite of the sense of frustration exhibited by many respondents, many also profess optimism about the future. Said one, "Would you believe it? We're even beginning to see the emergence of a 'used car' market now in the Bicol!". Or again, "Since Martial Law (1972), businessmen in the Bicol no longer have to employ armed bodyguards. Conditions are definitely better than they used to be."

Status of Private Investment Promotion in BRBD Program

The BRBDP Comprehensive Development Plan: 1975-2000 is fully cognizant of the need for private investment if employment and other socio-economic targets are to be met. The relevant section entitled "Rural Based Manufacturing Program" is reproduced in Appendix B, attached.

The "Ten Year Plan" estimates Peso values and their private and public sector sources for required investments. Out of an estimated total of 6,691 million (in 1972 pesos) in investments required for 1978-1987, 4,466 million must come from the private sector. The overall investment goal is divided among sectors as follows:

Agriculture	29.6%
Manufacturing/Construction	24.6%
Commerce	16.6%
Other	29.2%

Specific allocations are estimated for selected manufacturing industries of which the first six listed below are given the greatest emphasis:

- Food and beverages
- Wood and wood products
- Textiles
- Footwear and related products
- Chemical and chemical products
- Metallics
- Electrical and non-electrical machinery and related products
- Pulp, paper and paper products
- Non-metallics
- Tobacco
- Petroleum, coal and related products

Projected manufacturing and construction inputs are also allocated by the IAD composition of the BRBD Program area.

Project Feasibility Research

It is notable that BRBDP investment promotion activities to date largely have been limited to the making of pre-feasibility studies of projects which might be expected to attract private investment. Some of these are now being carried out to near-investment grade feasibility studies. These include:

- Coconut coir production
- Coconut oil - aqueous processing; yielding oil, high protein syrup/flour and shell charcoal
- Geothermal salt plant
- Slaughterhouse
- Pulp and paper mill - abaca and/or bagasse

Wall board (hardboard) based on rice stalks, possibly
 integrated with coconut coir project
 Citrus juice (calamansi) extraction
 Tannery, under assumption local slaughterhouse also
 established
 Molasses by-products - alcohol, citric acid, monosodium
 glutamate.

In-depth feasibility studies^{1/} for certain other projects have been
 recommended, such as:

Fish meal plant
 Feed mixing plant with corn, rice bran, molasses,
 ipil-ipil, coconut and fish meal as ingredients
 Mechanized abaca fiber plant for handicraft and
 pulp/paper manufacturing markets
 Food processing and distribution center -
 meat and fish - including slaughtering, processing,
 freezing and cold storage
 Pulp mill using bleached bagasse and abaca, alternately,
 depending on seasonality

Recommended by consultants to BRBDP for further preliminary investigation
 are:

Rice bran oil extraction plant
 Clay and ceramics industry based on kaolin deposits in
 the area - also valuable as filler in paper
 Mining and minerals potential of Caramoan peninsula
 especially in re: molybdenum and coal
 Handicraft marketing organization - and the addition of
 woodcarving, rug weaving, and leather goods to
 traditional Bicol handicraft lines
 Tourism facilities such as marinas, sport fishing boats,
 white sand beach accommodations, organized tours, etc.

Some other projects that have been given only a preliminary appraisal
 resulting in a doubtful rating at this time include:

Abaca sacks
 Cement
 Metal forging and foundry
 Sodium silicate plant
 Calcium carbide plant
 Sulfuric acid plant
 Cassava and camote mill
 Cacao and coffee mill
 Coconut oil refinery

¹ "In-depth study of the Bicol - The Agribusiness Team", P. W. Ruppert,
 Team Leader: July 30, 1976

Powdered egg plant
 Bagasse pulp by-products (vanillin, yeast, glue)
 Post harvest machinery plant (large)

It is understood that some controversy exists regarding the amount of emphasis BRBDP has given to the production of near-investment grade feasibility studies. The argument goes that, in the final analysis each investor is going to have to do his own feasibility study (with financial and technical assistance as may be required, to be sure) taking into account the unique aspects of his own contribution to a project and the particular conditions which may exist precisely at the time and place he is ready and able to implement. Further, it is understood that NEDA is not sympathetic to having the government do investment grade feasibility studies on behalf of the private sector although there may be cases where the GOP would find it in its interest to assist.

A Suggested Role for Feasibility Research in Investment Promotion

It seems to this consultant that BRBDP should assume responsibility for near-investment grade feasibility studies of private-sector-oriented projects only when those projects are large scale, calculated to provide a multiple impact on a region's (or at least sub-region's) economy as a whole, considered necessary to fill a vacuum, and may, indeed, require public sector participation as well as private. In short, the justification would be similar to that for physical infrastructural projects such as road, port, water control systems, and industrial estate type projects. A cement facility for the Bicol would be a case in point. In this type of project, it is not sufficient to simply construct a model and then go out and look for an investor-entrepreneur to carry it out. On the contrary, defining the optimum type of "investor package" to fit the project becomes an integral part of the feasibility study, itself.

On the other hand, the vast majority of manufacturing and service industry projects which need be promoted for the development of the Bicol economy will be small and medium scale and relatively localized in their impact and must be tailored to the particular time, place, managerial, technical, and financial circumstances of specific individual investor-entrepreneurs. Such projects will include piggeries, hatcheries, machinery repair shops, rice mills, cold storage plants, warehouses, hotels, trucking companies, marketing companies, vehicle service stations, wholesale and retail establishments, food processing plants, cottage industries and so forth. Since the particular circumstances of potential investor-entrepreneurs cannot be predetermined, attempting to cover all such projects with high grade feasibility studies would seem to be misplaced. To be sure, BRBDP needs to know where such projects will have a beneficial effect, and this is an anticipated output of the "Urban Functions Study Project" which is nearly complete.^{1/}

At the same time, when a land bank bond holder asks the bank manager what he might invest in, the manager must be able to make some useful suggestions about project opportunities and be able to back them up with some basic information on the viability and general prospects of such projects.

¹ "Urban Function in Rural Development", BRB Pilot Project, D.A. Rondinelli, Consultant, Fourth Quarterly Report, Sept, 1977.

Pre-feasibility studies are sufficient for this purpose if by "pre-feasibility" we mean:

- 1) it has been determined that the project is capable of providing additional employment and contributing positively to the expansion, diversification and/or integration of economic activities in the area;
- 2) that local, inter-regional, or export markets will exist for products or services which the technology required by the project is capable of producing;
- 3) that it provides specific information on the nature of that technology plus references to sources of detailed technological information;
- 4) that it provides some vital information on determinants of market accessibility and channel alternatives;
- 5) that availability of required materials, equipment and supplies is or can be reasonably assured over the duration of an estimated life-cycle for the project;
- 6) and which provides a preliminary estimation of costs of production at selected scales of operation, marketing costs, and market price trends.

Definition and Development of Improved Data Base for Investors

The second major thrust of the BRBDP Rural Based Industries Program is on a comprehensive business information system for the benefit of Bicol businessmen to be developed in cooperation and coordination with the several government agencies responsible for collecting data for the area including, primarily, NEDA/NCSO, but also including the Central Bank, BOI and various GOP departments (Industry, Agriculture, Education, etc.). The information requirements are seen as encompassing quantitative annual and quarterly data on such matters as:

- "a) Markets - labor markets, and movements, agricultural commodity markets, semi processed and processed manufactures, and export markets,
- b) Industry - capacities, rates, profitabilities,
- c) Economic Research - business cycles, capital investments, capital-output ratios, capital intensities, employment, etc."

Such information will certainly be extremely helpful to the investor community when it becomes available in 5 to 10 years according to the Plan, but private investors, hopefully, will begin to get involved in projects beneficial to the Bicol long before that. Today is none too soon for specialized promotional staff to be getting out and talking persuasively to potential private sector investors and their private and public sector financial and technical assistance intermediaries. For example, the

on-going and likely infrastructure projects of the BRBDP and other GOP agencies are not generally understood by the private sector and if more fully articulated might influence their medium term investment projections.

The way in which planners and investment promoters define investors can be of importance. Any tendency to over-simplify should be corrected. The universe of potential investors is complex. Different promotional strategies will be required for different types of potential investors. The ex-Bicolano who has "made it rich" in Manila may be much less conservative than the wealthy resident Bicolano. Some investors may be interested only in equity participation, and not at all in managerial responsibility; with others, such an orientation may be reversed. Small scale project investor-entrepreneurs may desire much more "hand holding" and technical guidance than will more sophisticated project sponsors. Foreign investors who might be expected to spend any significant time in the area will be more concerned about local social amenities than will Philippine investors, on the average.

Also, any tendency to cleanly divide projects which belong exclusively to the public sector from those which are exclusively for the private sector should be given critical consideration. Even the GOP Investments Priority Plan (IPP) allows incentives for private investors who may build or pave a feeder road linking their project to the National roads or ports. We can not rule out the possibility that a group of private investors might support development of a public recreation area, establishment of a fisheries marketing organization and facilities, a compact farm, a cooperative, or a seeds and seedlings nursery and research center. One can imagine many projects which might be implemented as joint public and private sector enterprises, and a useful role for BRBDP investment promotion staff can well be that of bringing public and private sector investors together.

An overly simplistic dichotomizing between public and private sector investors and investment opportunities is particularly hazardous in the Philippines. There appears to be no operational "Conflict of Interest" norm to inhibit public officials from participating as private sector investors. Wealthy and powerful members of the traditional elitist families are often numbered among the first line of technocrats and directors of large scale, government controlled, monopolistic or cartelized industries such as cement, sugar centrals and refineries, mining enterprises, export and import "marketing board" type organizations, public and quasi public sector banking and non-banking financial institutions, and so forth. Official policy perhaps to the contrary, it is difficult to image any large scale project getting underway in the absence of heavy, if not dominant, public sector participation.

The impression derived from discussions with line agency technocrats and bankers is that mobilization of private sector investment is presently seen as inherently a small-scale oriented phenomenon. Whether it is even conceivable that two-thirds of the required investment to meet Bicol ten-year development goals can be mobilized in the agricultural and small scale business and industry sector is extremely doubtful and, at least, deserves much more careful study.

Even if 100% of the potential savings of agrarian reform and other farmers, agribusinessmen, retailers and wholesalers, small scale manufacturers, etc., would be sufficient to meet development goals; little appears to have been done to determine how or why such savings might be channeled into productive investment projects. That such channeling will occur is simply taken for granted by the planners in spite of considerable evidence that risk taking and profit maximization are uncharacteristic Filipino motivational drives. Although individuals see themselves as exceptions, invariably everyone interviewed by this consultant described Filipinos, in general, and Bicolanos, in particular, as being conservative, fatalistic, new experience (risk) avoiders, content with what they have in a relatively benign environment, and suspicious that greater profits would be worth the additional work required to earn them. This is not unnatural. Traditionally, the Filipinos were landlords and peasants while responsibility for commerce and industry has been that of the Chinese-Filipino community.

It would be easy to dismiss such broad generalizations as these out of hand were it not for the fact that so much difficulty is being faced in the matter of inducing Filipino investment in new industrial enterprise. Ex-landlords appear content with 6% earnings on the bonds obtained in compensation for lands confiscated under agrarian reform even when challenged by opportunities to undertake projects promising 15% to 50% returns on investment.

In final analysis, the fundamental problem is that very little, if anything, is known about Filipino investors or investment attitudes and motivation. Clearly, some Filipinos are investing in new productive enterprises. Who are they? What demographic and personality characteristics distinguish them from non-investors? On the grounds that a rifle approach to promoting investment will be more efficient and effective than a shot-gun approach, it is seriously recommended that investigation of the investment attitudes, motivations and behavior of various classes of Filipinos be made the subject of an in-depth scientific survey.

Regionalization of Central Government Incentives

It is encouraging that the Twenty Five Year Plan's Rural Based Industries Program calls for a Policy Study of incentive schemes that might mobilize or attract private investment in the Bicol. It is imperative that BRBDP and NEDA people begin to put themselves in the shoes of potential investors, resident and external, and ask the question: "Why should I invest in the Bicol?" One sound reason was given by a prominent ex-Bicolano in Manila. He said, "Because Manila can't go on growing forever. Sooner or later the economic momentum must swing away to other regions. I want to be in at the beginning and, in fact, have already made several investments, accordingly. However, none have been in the Bicol. By the way, what has the Bicol to offer?"

It should be noted that the Bicol cannot depend alone upon "regionalization of incentives" which now appears to be a welcome and serious new thrust of the government. The consultant had a chance to peruse a draft strategy

paper responsive to Presidential LETTER OF INSTRUCTIONS NO. 543, May 1977, concerning "Preparation of an Integrated System of Regional Development Incentives" and was favorably impressed by the paper's serious attempt to come up with a scheme for prioritizing projects on the basis of regional and specific locational needs and conditions. But it was also noted that the strategy would have BOI, a strictly centralized government agency, do all of the prioritizing, with eleven different regions to take into consideration. There may well be scope in this situation for an Investment Promotion "Bureau" to assist BOI as far as prioritizing for the Bicol is concerned.

It has also been disclosed "that the government is working out the mechanics of a regional development fund (RDF): in essence, a method of pooling regional resources and national counterpart funding designed to give different regions more initiative in directly financing viable programs and projects - conceived at regional levels."¹/ Again, much local initiative will be called for in order that this welcome innovation be optimized in the Bicol, at least as well as it may be by other regions; and there is a role for an IPB here, too.

However, even if the government is able to begin forcing socio-economic development away from its traditional focus on the greater Manila area, each of the regions will remain largely on their own in coaxing such development inputs into their particular areas. Certainly, a list of comparative advantages for investing in the Bicol will have to cite more than sentimental reasons alone, e.g.; appeals to the loyalty of Bicolanos, resident and expatriate. The list might begin with the fact that the majority of the Bicol is linked to the Manila market by a new all-weather road and rail (to be upgraded) as contrasted with the island regions. It is rapidly being covered by rural electric cooperatives which will receive power from the Tiwi Geothermal generator. It has its own uncrowded international seaports and conveniently located inter-island ports. It probably enjoys a longer grace period before wages break out over the minimum wage threshold than will be the case in some other regions. It has many natural and cultural features to attract tourists of the recreation seeking kind. The policy study should be able to extend and elaborate such a list. Then, the study should go on to define actions that local governments and even private persons and groups might take to entice business into the area, such as making land available or even establishing mini-agroindustrial estates on competitive attractive terms. All incentives need not be the responsibility of the central government, alone.

The Twenty Five Year Plan section on Rural Based Industries Program concludes by calling for a policy study on:

"Investment Promotions Bureau: May be necessary to coordinate an inter-agency effort at institutionalizing attraction of investors in economically desirable industries in the area, which will handle the entire process of attraction, servicing, processing of new establishments and getting establishments settled in. This is on top of current planning and programming efforts being carried out under the BRBDP. Policy studies will be undertaken by interagency task force."

¹ Daily Express, Saturday, Dec. 10, 1977, page 13.

The consultant would encourage the BRBDP and Regional NEDA to be less hesitant and to get on with it now!

High Priority Needs of the Bicol and Suggested Strategies

The needs which will be identified on the following pages are not simply those which respondents mentioned in interviews, although most did get discussed. This presentation reflects the consultant's interpretation and prioritizing of information obtained from all sources in the course of this mission.

By "needs" is meant those actions or conditions which may be expected to stimulate private investment in the Bicol region, some directly and some indirectly.

A general comment about Physical Infrastructural Development is in order at the outset. It was only to be expected that the present under-developed state of the Bicol physical infrastructure would loom very large in all discussions of development constraints, disincentives and needs. It is, of course, obvious that projects dependent upon electricity, a feeder road, more efficient rail transportation, irrigation, water control systems, improved varieties of seeds, etc., cannot be implemented until those availabilities or conditions are satisfied. However, some people seem to feel that nothing can happen until the infrastructure is complete and then, everything will happen, as if by magic. Neither is true. Things can begin to happen where the infrastructural availabilities and conditions are not complete, and expand along with infrastructural expansion. They may not begin to happen even when the infrastructure is laid down unless aggressively promoted. In so far as these dependent type projects are tied to a fixed schedule of public sector financed infrastructural programs, project planners, promoters and sponsors have only three options:

- 1) they can adapt to the fixed schedule, or
- 2) they can seek reprioritization within the schedule, or
- 3) they can try to implement the supportive infrastructural project by some alternative contracting and sourcing of funds.

Certain needs identified below may warrant application of the second or third of these options.

1. Investment Promotion Bureau - Development Strategy

On the assumption that giving first priority to filling the need for aggressive investment promotion was adequately defended in previous sections, prior to IPB's ultimate attachment to an arm of Bicol regional government with headquarters in Legaspi and a branch in Manila, it is suggested that the BRBDP and NEDA Region V Office assume responsibility for guiding the IPB through its gestation period commencing at once in

1978. For the present, the BRBDP should provide a base of operations in Naga, logistic support, and for the appointment of key officers and technical assistance consultants. The key officers to be appointed in 1978 should include a chief, a communications officer and a reportorial investigator. ^{1/}

The paragraphs which follow describe the consultant's view of the ultimate composition, terms of reference, and operations of an IPB for the Bicol region. This notation is simply to indicate the consultant's awareness that it may take a year or more to make an IPB fully operational. However, the consultant does believe that even an initial core staff can get involved in substantive operations, if only on a modest scale, from the outset. To assure this, it is recommended that an interagency task force be organized at once to provide advice and assistance to the IPB during its gestation period.

The reason for ultimately attaching IPB to an arm of Bicol regional government such as the Regional Development Council (RDC) rather than to either BRBDP or NEDA Region V Office is that the latter organizations are primarily planning bodies rather than operational-executing ones.

The reason for suggesting Legaspi as ultimate headquarters for IPB include its central position, geographically and functionally, for the Bicol region as a whole (most active airport, major seaports, most common regional base of line agency operations in the Bicol, center for public and private sector development financing facilities, its province has the most diversified economy, and so forth).

Staffing.

It is suggested that an IPB should be headed by a prominent retired business executive type, someone who can "invite Departmental Secretaries to informal lunches," readily convene small group meetings of leading citizens, and enjoy the respect of small scale business entrepreneurs, local bank managers, and the like. He probably should also play low handicap golf or good tennis.

Directly under the head (Director) there should be two Assistant Directors, one based at headquarters in the Bicol and the other in a special Investment Promotion Branch Office in Manila. Both should be experienced professionals; graduate school-trained communications generalists.

Next, there should be at least two experienced reportorial-type field investigators, one for each office, whose training include extensive exposure to social science research methodology and practice.

It would not be intended that the communications professionals would, say, actually be responsible for doing art work for a print media campaign, but they should know when such a campaign is in order, be able to design same, know where to get the collateral work done, and be able to supervise its production and control its quality. Likewise, the

^{1/} BRBDP believes, also, that if possible some mechanism to incorporate private sector advice and guidance should be considered.

reportorial investigators would not be required to, say, personally carry out a scientific random sample survey, but they should know how to design and oversee same if the need should arise. However, their primary expertise should lie in defining situations by means of informal field investigations stressing selective informant interviewing, locating and analyzing relevant secondary data resources, and direct field observation.

At headquarters of the IPB, the staff should be completed by the employment of three other professionals:

- a) A Project Economist, skilled in both economic and financial analysis and appraisal.
- b) A Marketing Micro-Economist, skilled in market analysis and marketing planning at the specific project level.
- c) An Industrial Engineering Generalist with diversified experience in light, labor intensive, small and medium scale agro- and rural based industries.

The number of technical and clerical support staff that might be required for IPB cannot be pre-judged. It might be very few depending upon how much of such work could be provided by the various existing BRBDP and NEDA Regional technical staffs upon whom IPB should be able to depend. It may be noted that any inclination to build into an IPB a lot of specializations is to be avoided, as is "empire building." If, for instance, a Piggeries Expert is called for, the IPB shouldn't add one to its staff; but it should know where to find such expertise and how to utilize it.

Functions of IPB.

When fully staffed and operational, IPB would have the following responsibilities:

- a) Designing and implementing of media campaigns.
- b) Organizing and stimulating potential investors and project entrepreneurs; getting entrepreneurs, investors, and financial and technical assistance intermediaries together.
- c) Coordinating with and assisting other investment and business development promoters such as leaders of banking and non-banking financial institutions, chambers of commerce and industry, trade and industrial associations, and other government line agencies such as NEDA/NCSO, BOI, DOI (SBAC & MASICAP), DOA, DEC, etc.
- d) Packaging and publicizing of simple prototype "pre-feasibility" studies as defined in the previous section.

- e) Developing a specialized data base and keeping it current on business development and activities in order to make possible the monitoring of private investment in the Bicol.
- f) Undertaking policy studies with regard to innovative means for stimulating private investment such as the establishment of a Bicol Development Venture Fund - or a cottage industries oriented bonded warehouse - or mini-industrial estates for municipalities - or customized financing facilities for small and medium scale industries - or the same for agricultural intermediaries, and so forth.

Technical Assistance for IPB.

It is recognized that implementation of this proposal will not be accomplished over night, that recruiting of qualified staff will take some time, that undoubtedly there are policy issues to be resolved, and that further refinement of the definition of IPB functional responsibilities may be necessary. For this reason, it has been proposed that the BRBDP-NEDA be assisted through the gestation period of the IPB by a professional Filipino consultant, perhaps backed up by a foreign consultant with international training and experience. Suggested terms of reference for such a consultant are in Appendix C, and it is understood that his/her recruitment is being actively pursued at the present time. A review of those terms of reference will reveal a considerable resemblance to the terms of reference defined for this consultant from PAS. The latter are reproduced and commented upon in Annex A^{1/}. However, the terms of reference for the Filipino Consultant are much more heavily weighted on the side of promotional and communications oriented expertise at the expense of agribusiness opportunity analysis and macro-economics research expertise. This modification reflects a redefinition of needs and priorities as it has evolved in the course of this consultancy mission.

The need for additional consultants to assist in the development of IPB, per se, Filipino or foreign, will depend entirely upon the ability of BRBDP to provide qualified professional staffing for IPB as recommended above. It may be that on-the-job or other training for less than fully qualified appointees to some of the positions will be required. In that event, the appropriate types of professional consultant/trainers should be recruited.

On the other hand, even before an IPB has been established, there is underway a program of agribusiness opportunities identification and appraisal. A team of U.S. consultants has completed a "quick look" survey resulting in the contracting of several near-investment grade

^{1/}

Under "Scope of Work" in Summary Terminal Report on Consultancy Schedule and Activities.

feasibility studies by a Filipino firm on behalf of the BRBDPO. The BRBDPO has requested some follow-on assistance from that same U.S. source to commence in January, 1978. The team, if contracted, would likely consist of:

- an Agro-Industrial Economist (Coordinator)
- a Pulp Manufacturing Consultant
- a Coconut/Food Products Specialist (who may be provided locally).

The team is expected to review and evaluate the Filipino firm's reports and "determine, from a private investor's point of view, the feasibility of establishing these project prototypes into commercially viable investment packages. The BRBDP's aim is to promote these packages with interested private investors. The team is also expected (1) "to recommend areas for further study not covered by the terms of reference in order to upgrade the prefeasibility studies to investment grade standards, (2) recommend strategies and actions in order to promote the projects for foreign and/or local investors, and (3) specifically assess the technical, export marketing, and financial packaging of the project prototypes." ^{1/}

The scope of work for the proposed team of U.S. Consultants is detailed, above, because of the considerable overlap between what they have done and are expected to do, and the role of the IPB as proposed for the future. It is anticipated that IPB will continue to need to call upon the assistance of domestic and foreign agribusiness and rural based industry specialists. The following types of specialists are recommended for early recruitment consideration:

- a) A cottage industries specialist to comb the Bicol hinterlands for existing or developable crafts and skills pertinent to handicraft export markets that have not, as yet, been exploited-- for instance, a Virgil Poling or a Leslie Tillett.
- b) A specialist in establishing mini-industrial estates, with expert processing zone features, when appropriate.
- c) A specialist in setting up small and medium scale apparel manufacturing plants aimed at the domestic market.

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According to the USAID-AD/RD office, the concept of this preliminary commodity strategy was to assist in establishing several rural industries in the Bicol to gain credibility to move into the broader investment incentives and promotion areas.

- d) A specialist for developing the local organic fertilizer industry.
- e) Sea-farming expert (primarily for Sorsogon Area)

2. A Policy Study on Establishing a Development Fund Exclusively for the Bicol Region

Medium and long term lending facilities in the Bicol are available primarily only through public sector national institutions (DBP, PNB, Land Bank) or through private institutions which are branches of national ones (CCC, Fil-CAP, IFC, FNCF-Finance Corp.). The Private Development Corporation of the Philippines (PDCP) has no branch in the Bicol. There is only one independent private development bank, the Albay Private Development Bank in Legaspi, but it has been inactive in term lending. A group of private businessmen in Camarines Sur has applied for permission to establish a Naga area Private Development Bank in association with DBP, which would put up matching funds. There are four independent savings and loan association banks in the Bicol (Bicol Savings in Naga with branch in Pili, Legaspi Savings, Iriga Savings, and Daet Savings). These banks belong to the quasi-private Federation of Stock Savings and Loan Associations. It is expected that PDCP, Fil-INVEST, PISO and BANCO-FIL, private non-banking finance corporations, may open branches in Legaspi in the near future. To the consultant's knowledge, among all of the private commercial banks in the Bicol, none is independent.

Early in the 1960s, a Bicol Development Corporation (BIDECO) was instituted by a Republic Act, but it is dormant today. It did found BISUDECO which was later taken over by the PNB. It has initiated a few small scale projects which are now defunct or bankrupt. It still receives some money for staff support, but the staff are loaned out to other line agencies. There was also at one time a Bicol Regional Development Board, but it was folded into NEDA when the latter established a regional office. Clearly, these public sector initiatives were ineffective in mobilizing private sector investment resources.

It is alleged by many that existing facilities are inadequate:

- Ceilings on branch discretionary authority and lending levels are too low; collateral requirements, too high and too rigid.
- Headquarters' approvals are too rare, too slow, too complicated, and too costly.
- All commercial bank lending is short term except for a specific concessionary program of the CB-IBRD (i.e.: IGLF). Long term loans are not rediscountable, so short term are preferred.
- There is little or no dispersal or integration of these facilities; most are concentrated in Legaspi and Naga; all look only to their own lists of depositors for investor prospects.

- Interest rate spreads are too thin for all but the rural banks to be interested in financing small loans.
- Private, term lending facilities for small and medium scale projects are inadequate or extremely difficult to access as compared with agricultural, cottage industry, and large scale industrial loans.

A policy study, in the first instance, should test the validity of such allegations as the above. If found reasonably accurate, the study should make a comparative analysis of alternative approaches to establishing term lending facilities more responsive to Bicol needs. These alternatives^{1/} might include one or more of the following:

- a) Establishment of a Bicol-wide development corporation based on:
 - i a consortium of local private commercial banks, looking into the possibility that the corporation might be allowed adequate discretionary authority by the parent banks of the branch member banks, or on
 - ii a consortium of private, independent stock savings and loan association banks.
- b) Establishment of a Venture Fund exclusively for use in the Bicol by a group of interested Manilenos (ex-Bicolanos) to be administered by a Manila based management contracting company on a fees against performance basis.
- c) Establishment of a specialized medium and long term financing facility to service small (10 to 29 workers, because this is the cut-off point for application of the 13th month bonus pay statute) and medium (30 to 100 workers) rural based processing, manufacturing and service industries.
- d) Establishment of private independent development banks (like the Albay Development Bank) in Naga, Daet, Masbate, Virac, Sorsogon, and other key municipalities, and then linking them together by some form of association for the purpose of syndicating of loans.

^{1/}

Not included among these alternatives is expansion of lending lines and discretionary authority of the rural banks because the Consultant feels this would only draw their attention further away than it is now from their basic responsibilities, namely, financing agricultural production and the Masagana 99 program, and, hopefully, full farm financing in the future.

- e) Establishment of branches of PDCCP (or another national private development corporation) in all key cities of the Bicol.

A professional development banking specialist should be recruited as a consultant to guide this study and train counterparts working with him. ADB and IBRD/IFC are likely sources for such expertise.

3. IAD V (Pasacao area) Development

On the grounds that opening up and development of this area will be of enormous economic, commercial, and social (recreational) benefit to the largest urban concentration (Greater Naga) of people in all of the Bicol, and giving it a sea link with Manila, it is recommended that improvement of the Pasacao Port facilities be given priority for earliest possible completion. The road link from Pasacao to the national highway is already funded under the Bicol Roads Project assisted under an AID Loan (1976-80). In Philippine Port Authority (PPA) Five Year Planning, improvement of Pasacao port facilities has no standing. It was learned that PPA is awaiting a legitimate proposal from BRBDP. On its part, BRBDP is said to be conducting comparative feasibility studies; the comparison being between repairing and improving the badly located existing pier and building a new pier in a more favorable location.^{1/}

With Ayala Total Shell and Pasacao Coco-oil private industry projects already in the area, there is a good likelihood of private sector participation in building a new pier and feeder roads in the area.

Given priority, promotion of development in the Pasacao area is a natural for an Investment Promotion Bureau (mini-industrial estate, hotel, sports marina, cold storage and warehousing, fish processing and possibly even a slaughter house/tannery complex based on livestock from local and Masbate sources).

4. Intra-Regional Telecommunications Capability

Almost all informants were in agreement that the ability to telephone from one municipality direct to parties on the telephone exchanges in other municipalities would have a great impact on quickening the pace, and lowering the cost, of doing business, whether it might be by obtaining comparative market prices while they are still in effect, maintaining contact with salesmen, getting approvals from headquarters of branch organizations, taking orders, gathering internal

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A possible draw back for this port is the rough seas during part of the year. However, the proposal for a new causeway and pier would provide a breakwater.

operations data by line agency field offices, conducting research, making appointments, and so on. However, this matter has not received serious attention by any quarter.

The GOP Bureau of Telecommunications (BUTEL) says, "First things first. Let's finish the main national network first and then install telephone exchanges in the vast majority of cities and poblacions which don't have them yet, before we worry about inter-exchange linkages."

The problem is extremely complex. BUTEL has been allocated funds only sufficient to carry out one quarter of its Five Year Plan projects. On the one hand, it would be delighted if private sector telephone companies would help out. On the other, it explains that it is the chaos of mis-managed, under-financed private companies that is at the root of the inefficient and erratic systems that now exist. Some Manila respondents were amused at the inquiry, itself, which occurred at a time when few phones were operational even in Manila, a rather common occurrence.

With no guarantee, and little promise of financing, BUTEL has scheduled the installation of "Toll Switching Centers" (the key to intra-regional telecommunications) for Legaspi and Naga as of 1981 and 1982, respectively. However, it was noted it might be possible for a private company, say, Philippine Long Distance Telephone (PLDT) to do the same at an earlier date. (Unfortunately, the consultant was unable to visit PLDT).

It is recommended that IPB when established, explore this matter in depth; that, if so indicated, USAID assist BRBDP in implementing a pilot project for, say, the Naga-Iriga-Legaspi-Tabaco area; and that a telecommunications specialist be recruited as a consultant to such an undertaking. It is fairly clear that such a project would have to be carried out through involvement of a private sector company rather than BUTEL (Option No. 3). No doubt a sophisticated survey aimed at projecting the traffic such a system could expect would be required. Designing and contracting for such a survey could be a responsibility of IPB.

5. Improved Bicol Business Intelligence System for Private Sector Project Planning and Control.

This need is obviously not a "top of the mind" priority issue with most businessmen, farmers, or bankers because they are not involved in planning to any significant extent. Nevertheless, it is a critical concern for any one who is so involved and, of course, planning is the major preoccupation of the BRBDP and the NEDA Regional Office.

The problems of the structure and operation of the Philippine statistical system are little changed from the way they were described in 1974 by the "Ranis Report"^{1/}. However, there is a continuing major

^{1/}

Sharing in Development, NEDA and ILO, a NEDA-APO Publication, Manila, Philippines, 1974; Pages 679-685

effort to correct those problems, especially those concerning organization, collection, processing and publication of improved regional statistical information. What is required is very costly, and it can only be presumed that the GOP is moving as rapidly as its limited resources will allow. Nowhere does one get an argument that it would not be desirable to have:

- more data on agricultural activities on a regional and provincial basis and also on the economic relationships between regions and provinces and on all of the alternatives available to typical farm families; and more data on barrio and municipal tax systems and collections in order to better plan decentralization and rural mobilization;
- better information on water management systems and irrigation; and on land availabilities and patterns of ownership and utilization in both urban and rural areas;
- reasonably current periodic data on intra and inter-regional commodity and monetary flows; on regional expenditure accounts as well as income accounts, and on the patterns of saving, borrowing and investing by regional populations;
- much better and much more data on the productivity of activities carried on in the unorganized sector of the economy including manufacturing, processing, trade and transportation and, especially, financing;
- and perhaps most important, better, more current and more detailed regional data on organized sector processing, manufacturing, wholesaling and retailing activities and establishments, especially as regards small and medium scale operations.

Faced with a veritable dearth of most of the foregoing types of data for the Bicol, the BRBDPO has taken the only route open to it: It has attempted to generate on its own those types of information most important to its mission in the Bicol and which it had the capability to generate. Thus, it has carried out surveys on life styles and attitudes, intermodal transportation, urban functions, migration, group lending and repayment, land use, livestock populations, educational and health facilities, water systems and availabilities, agribusiness opportunities, and many more. Much of this effort has simply involved extrapolation of secondary data from central statistical publications, much of it out of date. The primary field surveys, generally, have been designed as one-shot studies.

Now, for the second time, BRBDP is undertaking a longitudinal survey whose design is aimed at providing a comprehensive base line or benchmark on where the Basin program stands today; on this base, by means of follow-up surveys 2 to 3 years apart, it will be possible to analyze and measure the progress of the program. This survey is known as the 1978 Bicol

Multi-purpose Survey (BMS), an improved and expanded version of the first such survey conducted in 1974. It will develop indicators for agricultural production and productivity per hectare; the levels and distribution of income; time allocation and employment status; fertility and mortality levels and family planning use; health and nutritional status and social services use; the contribution of women; and the perceived and actual quality of life. The purpose of the BMS is to develop a greater depth of understanding of the problems faced by Bicolanos and of the causes which must be controlled in order to solve these problems.^{1/}

One thing about which there is fairly wide agreement is that there is a limit to the amounts and kinds of data BRBDP can or should assume direct responsibility for generating itself. One of the problems underlined by the "Ranis Report" concerned the uncoordinated proliferation of agencies that are generating statistical information in the Philippines, much of which that report felt could be developed more efficiently and effectively by an independent central statistical organization possessing a high level of authority. That situation is little changed. The following is just a partial listing of a few of the agencies with independent responsibility for collecting various kinds of data periodically:

NEDA/National Accounts Staff: National Income & Expenditures Accounts data, however, no effort to regionalize the expenditures data has been made, nor is it foreseen when this might be done. Lack of manpower and funds is the given explanation.

National Census & Statistical Organization (NCSO): Population, demography, housing labor force, establishment characteristics, external trade and prices, periodic agricultural and manufacturer censuses and household income and expenditures surveys.

Department of Tourism: Foreign visitor data, immigration and emigration.

Bureau of Fisheries and Aquatic Resources: Fisheries data.

Bureau of Agriculture and Bureau of Agricultural Economics: Agricultural data - production and land use, livestock, poultry and dairy data.

Central Bank: Balance of Payments, external trade, international and domestic money and banking, and prices.

Department of Finance, the Budget Commission, and the Central Bank: Finance data (government revenues, expenditures and borrowings).

^{1/}

It is unfortunate that the new BMS could not also look into investment attitudes and motivations.

Department of Public Works, Transportation and Communications:
Data on construction, transport, commodity flows, communications and storage.

Department of Education and Culture: Educational data.

The only way, other than doing its own research, that the BRBDPO can improve needed data in its region is by coordinating with and assisting the agencies that are directly responsible for data collection. It was expected that BRBDPO could accomplish this through cooperation with the NEDA regional office in Legaspi. But NEDA, itself, has only a coordinating responsibility (except as noted above) as far as the matter of conducting regular longitudinal censuses and surveys is concerned. The regional office of NEDA has no direct line relationships with any of the basic data collection agencies, not even with NCSO.

NEDA headquarters has suggested and is planning to distribute to its regional offices IBM print-outs of NCSO data at the lowest level of aggregation. One hurdle in this regard, according to NEDA, is lack of trained statistical manpower at the regional office level to process the print-outs. However, the innovation of involving NEDA regional offices in regional data analysis and processing for local planning purposes is certainly a welcome one. But it will not resolve the more basic problem, namely, that the original sampling for most surveys is too small and non-representative at regional and provincial levels in the first place.

Therefore, it seems to this consultant that if BRBDP can be of assistance to, say, NCSO in increasing the representativeness and reliability of, say, its establishments' surveys at the regional level, it must find a way to do so directly. The logical method would be by providing to NCSO additional field data collection manpower and assisting on the design of expanded samples for the Bicol Region.

Subsequently, when more representative print-outs become available and are distributed to NEDA regional offices, BRBDPO could assist NEDA in the matter of analyzing and processing the data, directly, and perhaps by providing a consultant-trainer to the NEDA field office staff in the Bicol.

From a private sector investment promotions point of view there are certain kinds of longitudinal base data that may be considered almost indispensable. These could be provided through a reasonably accurate inventory of establishments by size, type (at least 5 digits on the PSIC), and specific location that can be up-dated periodically, thus, making possible analysis of patterns of growth and decline by types of establishment, expansions, diversifications, and labor and capital absorption. The census aspects of this inventorying can possibly be handled through access to licensing and/or real property assessment authorities. Sub-sampling can be used for collecting of more detailed and qualitative data.

Equally important will be much better quantitative data than is now available on private sector project financing in the Bicol. The banker's responsibility for respecting confidentiality is one of the major hurdles in this area of research. It will require a sophisticated research methodology to avoid challenging confidentiality and yet obtain useful results, but it may be possible. However, if a direct approach proves impossible, the Central Bank may have much of the required information and might be persuaded to process it according to specifications that would provide no threat to confidentiality, providing also that the cost of doing so might be met from external sources.

The Investment Promotion Bureau will need to develop close working relationships with potential investor-entrepreneurs (Bicolanos and Manilanos); chambers of commerce; trade, manufacturing and banker's associations; farmer groups; resident line agencies; city and provincial councils; and so forth. Files on each will need to be created and maintained.

GOP-supported fiscal, institutional (technical assistance & training), credit, physical/infrastructural, factor/price, and regional incentives are constantly changing. At all times, IPB must maintain a current record of developments in this area. And, as mentioned earlier, an up-to-date record of "comparative advantages" more or less natural to the Bicol should be added to and maintained. Investors are going to ask why they should invest in Bicol projects rather than somewhere else. IPB must have good reasons on the tip of the tongue.

Reliable commodity flow data will be as valuable to IPB as to any other planning centers in the BRBDP. It is understood that the DPWTC is generating such data nationally for air, sea, and rail transport on a quarterly basis. There has been no opportunity to examine this information for its representativeness for the Bicol. If not sufficiently representative, it would be another case in which BRBDP might try to assist DPWTC in upgrading the Bicol area data. The fundamental problem here is that no one is attempting to periodically survey commodity flows by road transport. The reason is the large extent to which such transport falls in the unorganized sector. DPWTC is conducting an 80 checkpoint national survey of road transport now, but only large, exclusively goods-carrying trucks are being surveyed. However, the results of this study may suggest some means by which BRBDP could provide assistance in developing useful road transport commodity flow data on a periodic basis for the Bicol.

6. Need for Bicol Educational System Improvement

When the IPB can cite the quality of its university education and skills training facilities as a comparative advantage for investing in the Bicol will be an important day. The need for long term complete overhaul of the education system including its underlying philosophy has

been defined by a team of consultants earlier this year.^{1/} One can be sympathetic with the overall thrust of that study and its conclusions and still realize that very pragmatic steps need to be taken at once, even before all of the policies studies that will be generated by those consultants' conclusions will get underway.

This consultant found general agreement on three specific needs which must be addressed immediately if Bicol education is to be responsive to the quickening pace of economic development in the area:

- a) The Bicol must immediately improve the actual quality, and the image of that quality, of its university level business administration education program; a major factor in the continuing "brain drain" prevalent in the Bicol today.
- b) A flexible system of skills training that is adaptable to relatively unpredictable and rapid changes in demand is needed now; any inclination to establish permanent skills training curricula should be avoided.
- c) The multiplicity of training programs and facilities should be reduced in number, and in any case, brought under the effective control and coordination of a single policy making organization.

A quick solution to the first need is to bring the University of the Philippines (UP) into the Bicol in the manner it has already branched and is planning to branch into other regions. This solution has the blessing of highest authorities in the Government.

UP has learned from experience that the best strategy for bringing this about is for a group of prominent citizens to organize themselves into an educational development "lobby" with the aim of convincing regional government, perhaps the Regional Development Council (RDC), to invite UP into the region. Only by such a strategy can there be any expectation of overcoming the understandable jealousies and fears of existing tertiary level institutions.

Although there was too little time to pursue this matter other than with UP officials, it is understood that the system in the Bicol might lend itself to bringing UP in by a merger route with one or more existing institutions in the Bicol. It is encouraging to note that the BRBCC is giving this matter serious attention at the present time.

^{1/}

"Education and Training for the Integrated Development of the Bicol Region," Public Administration Service, Washington, D.C. August, 1977.

A more brutal strategy for up-grading the quality of education was recommended in the "Ranis Report." That was to reduce property taxes on accredited institutions by one half. The problems of establishing a truly rational accreditations system are, of course, formidable, but it is understood that the Philippines has made considerable progress in this area, including the adoption of College Entrance Examination Board standards and methods since publication of the "Ranis Report."

With regard to the second and third needs listed above, it appears that the terms of reference of the National Manpower and Youth Council (NMYC) delegate to it precisely the responsibilities and authority for dealing with those needs. Its program planning strives for flexibility. It develops training programs to meet specific requirements when they arise. It takes training events to groups of trainees in their place of work when this is more efficient than having them come to its fine new training center in Pili.

There is little doubt but that living up to its mandate relative to the third need (policy making and coordinating of other training programs) poses greater difficulty for NMYC. It would seem that the BRBDP can be of considerable help to NMYC by coordinating with it on any planning of training activities in which it may get involved.

It is also recommended that BRBDP establish an Education and Training Coordinating Office within its organization at the earliest opportunity. There is need for at least one officer in BRBDP to spearhead its potential role in the upgrading of education and training in the Bicol.

7. Need for Improved Housing, Recreational Facilities, and Other "Good Living" Amenities.

In the course of this investigation, it constantly came up that bringing outside investors into the Bicol, or keeping the types of people who will become potential investors in the Bicol, will be determined to some extent by the amenities of life existing in the Bicol. In this connection, upgrading health facilities is basic. The importance of developing the recreational aspects of Pasacao area development and its potential impact on the Naga area has already been mentioned. It can also be mentioned that the Camarines Sur Povincial Government has ambitious plans for recreational development in the Mt. Isarog area. And clearly, Albay Province has already made great strides in the development of recreational facilities. The Mayor and the Naga City Council are much involved in town planning and the development of specific resources that would be expected to attract business and investment to the area. Everyone appears to want to get beyond the planning stage and begin to implement. It also appears that NEDA and BRBDP are trying to provide planning assistance in this area to provincial, city, poblacion and barrio mayors and development councils, however, the scale of such assistance has been quite modest. It would be expected that an Investment Promotion Bureau could provide considerably more substantive assistance.

There is concern that promulgation of an "Urban Land Reform" policy by the central government may remove development of housing from the private sector. This could be unfortunate because it is a sector of construction in which the private sector can make a substantial contribution to overall economic development.

Other Needs and Opportunities

Many other specific things were mentioned in the course of the investigation which might have a beneficial effect on the private investment climate in the Bicol, but the seven major ones described above seemed to this consultant to be the most important. Those remaining issues are discussed on the following pages.

1. Concessionary Electric Rates

Of course, it would be helpful if the Bicol could be favored with comparatively lower electricity rates on the grounds that the Tiwi Geothermal Power Plant is located in the area and is using a Bicol resource. However, it is also understandable that the central government may look upon this as a national resource developed by national inputs, not local ones. In any case, it will bring electricity to many more people in the Bicol and at much cheaper rates than they have known in the past. Some feel that may be good enough.

2. Rural Electrification

The need for faster development of rural electrification was often cited. In case it might be possible to reprioritize the schedule for rural electrification, a survey might be in order to determine where it would have the most beneficial impact. What cottage industries might be stimulated? Where? What would it do for farmer productivity, especially through lower rates for electric pumps? What would be its social benefits? And so forth.

3. Railway Freight Handling Facilities

Noting that the ADB railroad improvement loan is only for trackage improvement, the need for improved freight handling facilities often came up in the discussions. However, in discussing this with PNR authorities we found rather convincing arguments in support of their position that development of such facilities should and would keep pace with actual demand. They, incidentally, were fully supportive of the Naga City Integrated Railroad Terminal project proposal, which is still pending for lack of local funding and some controversy over whether the project should include a hotel or not. This consultant believes Naga needs at least one 4-star hotel.

4. Mobilization of Agricultural Sector Savings for Investment Purposes

And, of course, no discussion omitted consideration of the problems of mobilizing savings for investment purposes in the agricultural sector;

or problems being faced by supervised credit programs; or the problems associated with bringing effective technical assistance to farmers, agribusinessmen, and other small scale operators. This consultant has come away with the impression that the individual and small group (SELDA) highly subsidized lending programs in connection with Masagana 99 and Fisheries programs have turned out, by and large, to be a welfare program that is reaching no more than 20% of the intended populations. Accumulated arrearages among the Rural Banks are so heavy that only one in all of the Bicol now qualifies for participation in the CB-IBRD agribusiness-oriented lending program.

Large group and Compact Farm lending and technical assistance programs are apparently much more successful. The Land Bank is concentrating on this approach in its agricultural lending program with some degree of success, it is said. This consultant would require more time to study the whole situation regarding agricultural lending programs in order to determine what role an Investment Promotion Bureau might most usefully play in assisting development in this area. It has been suggested that we should not rule out the possibility that "management" of some compact farms could be attractive to a private sector entrepreneur-investor much as it was, in essence, to landlords prior to Agrarian Reform but with farmer-owners hiring their own management.

Others have suggested, and I agree, that in the traditional, unorganized sector, farmer intermediaries should not be totally ignored, much less disdained, as vehicles for raising farm productivity. They remain by far the most common intermediary of the small scale farmers in the Bicol. An analogy with traditional midwives is not inappropriate. Filipino midwives have been successfully brought into the modernization of the health delivery system program. As suggested by Consultant D.W. Adams, this concept certainly deserves serious study.^{1/}

5. Technical Assistance - Agribusiness

A final word on the need for technical assistance to agribusiness, cottage industries, and small and medium scale processing, manufacturing and services industries. It is abundantly clear that the Department of Agriculture intends to provide and orchestrate a massive program of technical assistance to the agribusiness sector through its own resources and those of a host of specialized agencies. Soon, it expects to establish Technical Assistance Centers in all of the regions. In addition, the DOA has been giving serious consideration to the establishment of an Agribusiness Development Foundation which would provide farm financing and supervised credit to the agribusiness sector. It appears that DOA intends to cover all bases in this sector.

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Letter of 12/6/77, D.W. Adams to D.F. Wadley, AD/RD-USAID; Subject: "Suggestions on additional research on Rural Finance Topics in the Bicol Region (See Annex D)

6. Technical Assistance - Cottage Industries

In limited discussions with cottage industry people, the National Cottage Industries Development Authority (NACIDA) appears to be performing its regulatory, informational and financing services of the industry satisfactorily. However, success in the industry also depends on good management and fairly sophisticated marketing. The latter is an area that the IPB must try to provide some assistance in cooperation with the Philippines Export Council, the Department of Trade's Trade Assistance Center in Legaspi, and the Department of Industry's export promotion arms. Bonded warehousing for Legaspi cottage industries is suggested. There is need for quality control and standardization within the industry. Some export traders and some producers are following business and production practices that damage the reputation of the whole industry. It is encouraging to note that the President has recently called upon NACIDA to head up a committee charged with responsibility for establishing a quality control program and facility.

7. Technical Assistance - Small & Medium Scale Industries

Technical assistance for small and medium scale industry falls in the domain of the Department of Industry with actual implementation through its Commission on Small and Medium Industries (CSMI) whose members include the DLGCD, UPISSI, DAP, NMYC, IGLF, DBP, FTI, DOT, CB, DCP, and the NSDP. At the regional level, DOI provides the Small Business Advisory Centers and the MASICAP (Medium and Small Industry Coordinated Action Program) teams. The Bicol SBAC is in Legaspi and there are 15 members of the MASICAP team for the Bicol. In a nutshell, the DOI looks upon these field forces as a "technology services delivery system." MASICAP teams are responsible for identifying viable projects, helping the clients to prepare bankable proposals, and defining the clients' needs for technical services. The latter are communicated to CSMI in Manila which then calls upon whichever among its members can provide the desired services. The SBAC plays a similar role, but in respect to on-going projects that get into one kind of trouble or another. This program is still very young, as is the DOI, itself, and it is grossly underfinanced considering the enormity of the problem it is tackling. Nevertheless, it seems to be a practical program deserving the full cooperation of the BRBDP. A concern, however, is that SBAC/MASICAP sole representation of the vast interests of the Department of Industry at the regional level may be insufficient. These interests would be better served if CSMI, itself, were to establish "coordinating centers" in each of the regions. ^{1/}

8. Fuller Representation on Regional Planning/Coordinating) Bodies

The Bicol River Basin Coordinating Committee (BRBCC), as presently constituted, does not include some of the key line agencies responsible for the promotion of private sector investment. Since heavy reliance is being placed on large amounts of new private sector investment for the ultimate success of the BRBDP in achieving its goals, it is recommended that the BRBCC seriously consider expanding its membership to include

^{1/}BRBDP also recommends that DOT, Department Trade and other line agencies providing assistance to private business should be encouraged to provide technical, financial and other services within the Bicol region of a quality and diversity on par with those offered in Manila.

the regional directors of the key line agencies responsible for this effort. At present, some departments are represented by several specialized bureaus while other key departments are not represented at all. In the absence of availability of line agency representation at the level of "regional director", the most responsible officer representing the agency in the Bicol should be accorded at least "associate" membership status. It is a special concern that neither the Department of Trade nor the Department of Industry is represented on the BRBCC. It seems most logical also that the independent cities of the program area should enjoy representation on the BRBCC since they do not come under the jurisdiction of the provincial governors.

9. Inclusion of Large Scale Industry Sector in IAD Planning

Finally, truly integrated rural regional development should and will include some large scale business and industrial projects. They are needed for their synergistic influence on the growth of small and medium scale ancillary, intermediate and tertiary business activities. The proposed industrial estate with export processing zone in the Tabaco area should be so conceived and classified. Hopefully, private sector investment in its establishment can be promoted successfully. Credible informants say that there would be no difficulty recruiting foreign investors and contractor-buyers for 100% of the product of a large scale cement plant on the Ragay Gulf side of Camarines Sur. They blame the idle capacity of existing cement plants in other regions on politics and mis-management. It is also reported that large scale mining and quarrying project potentials exist for the Caramoan peninsula area and possibly elsewhere in the Bicol. It is known that there are other potential sites for Geothermal Steam-Power plants in the Bicol besides the one being developed at Tiwi. A large scale slaughter-house-cold storage, and tannery complex for Masbate might well be of interest to private investors.

SUMMARY TERMINAL REPORT OF CONSULTANCY SCHEDULE AND ACTIVITIES

Scope of Work

Objective No. 1:

"Assist BRBDP develop a strategy paper and program of action to improve private investment incentives and stimulate a more rapid rate of private investment"

Comment:

This has been done and constitutes the technical/substantive report to which this Annex is attached. The main strategy suggested is creation of an Investment Promotion Bureau.

Objective No. 2:

"To improve private investment stimulation capability of BRBDP and other participating agency staffs"

Comment:

This was not possible within the time frame of this consultancy (8 weeks). Furthermore, no agency staffs have been assigned responsibility for private investment stimulation as of this time.

Description of Tasks:

"To assist an interagency GOP task force in performing the following"

Comment:

No GOP task force has been established.

1. "Identification of specific agribusiness and industrial investment potential within program area"

Comment:

The considerable amount of work already underway is reviewed. The consultant feels what is being done in the agribusiness area is sufficient for the time being. Summaries of the findings are not included because the studies are not finished. The important thing is to get projects going in some of the identified agribusinesses, and that is what a private investment promotion program is for. On the other hand, much more identification work must be done in the cottage industries and small

and medium scale manufacturing and service industry sectors. Some are specifically identified. General recommendations are made accordingly with regard to provision of specialist consultants.

2. "Identification of development constraints"

Comment:

This is accomplished in considerable detail in technical report.

3. "Preparation of an appropriate and realistic public sector strategy and program of action, beginning from the current state of affairs, that would improve private sector investment incentives"

Comment:

Establishment and administration of private sector investment incentives is a central government responsibility with primary authority given to NEDA Regional Development Staff and the Board of Investments (BOI). The Consultant would recommend to the government full scale adoption of the recommendations contained in the 1975 "RANIS REPORT" sponsored by NEDA and ILO. In the meantime, it is suggested that a key function of a Bicol Investment Promotion Bureau (IPB) would be that of "assisting" BOI on the prioritization of investment incentives for the Bicol region. Fundamentally, the Consultant has arrived at the conclusion that identification and development of the "comparative advantages" enjoyed by the Bicol (vs. other regions) is seeking differential fiscal, institutional, factor/price, credit, or other types of concessionary incentives. Such identification and development responsibility is spelled out for a Bicol IPB.

4. "Draft terms of reference for any studies recommended in (3) above, and make recommendations as to qualifications of a suitable contractor"

Comment:

This is done in detail as regards staffing and technical assistance for a Bicol IPB and as regards a selected few specialist consultants. In other areas, time only allowed for rather generalized recommendations.

4a. "Such studies might include: Measuring and analyzing commodity flow patterns"

Comment:

This is a responsibility of DPWTC. The strategy recommended is for an IPB to familiarize itself with DPWTC efforts in the area and seek ways to assist DPWTC in improving its input in the Bicol regions.

- 4b. "the development of regional GNP expenditure accounts to permit economic analysis of public fiscal and monetary policies affecting the region. . . ."

Comment:

These macro-economic considerations were given their full share of attention during all of the Consultant's investigations. However, they receive only generalized attention in the technical report because they are so dependent upon central government long rang policy decisions and the limited capability of the government due to scarce resources to produce the quality of economic statistical system that it would, no doubt, like to have. Nevertheless, some specific suggestions as to how the BRBDP might help out are made.

- 4c. "Probable effects of alternative incentive schemes"

Comment:

See comment on item #3, above.

- 4d. "In-depth analysis of sources and availability/terms of credit for rural industry in the Bicol."

Comment:

Dealt with in detail during consultant's investigations. Maintaining current documentation thereon is recommended as a prime responsibility for IPB, to be commenced immediately upon its formation. Are recommending that the unorganized sector be regularly assessed as well as the organized sector.

- 4e. "Development of an economical intra-regional (tele) communications network to serve the business community"

Comment:

Given full consideration, and recommendations are made in consultant's technical report.

- 4f. "Areas of comparative advantage of the region"

Comment:

Some are identified. The Consultant's technical report lays great stress on the need for identification and development of others. An IPB must be able to suggest to a potential investor why he should invest in the Bicol rather than some other place. The government now seems serious about regionalizing investment incentives, that is, forcing the momentum of economic activities away from the greater Manila area. But the central

government is not likely to play favorites; or if it were to, there is no reason for the Bicol to feel optimistic. Therefore, the Bicol must have its own persuasive story to tell.

Reports by the Contractor:

This is the "Summary Terminal Report of Consultancy Schedule and Activities". It is annexed to the technical report, a "draft strategy and program of action" paper. Draft terms of reference for studies and suggested technical assistance consultancies are contained in the body of the technical report or in Annex C, below.

Schedule:

Oct. 25-31: Pre-contract Familiarization

Briefing: By Raymond A. Bailey, Senior Associate, PAS, Washington, D.C.

Readings: "An Evaluation of the Bicol River Basin Development Program",

Team Leaders: Arthur T. Mosher for USAID and Eduardo C. Corpus for NEDA, Manila, Philippines - August, 1977

USAID Project Paper: "Philippines - Bicol Integrated Rural Development", October, 1976

IBRD Rept. No. 1415 PH: "Philippines: Appraisal of Fourth Rural Credit Project", May 7, 1977

IBRD Report No. 667a: "Philippines - Appraisal of a Small and Medium Industries Development Project," April 18, 1975.

Vol. 1: The Appraisal Report

Vol. 2: Part 1: "A Report on Philippine Small and Medium Industries"

Part 2: "Technical Assistance Programs for Small and Medium Industries".

Nov. 3: Arrival Manila - Briefing at USAID by Don F. Wadley, AD/RD

Nov. 4-16: Reconnaissance Operations in Bicol Region

1. Briefing by resident BRBDP and USAID Economic Officers

2. Intensive field interviewing of GOP line and specialized agency personnel, local government leaders, public and private sector bankers and businessmen (See chronological listing, page 7).
3. Critical Background Reading:
 - a. "Ten-year Plan" and "1975-2000 Year Plan" documents prepared by BRBDP/NEDA for Bicol Region.
 - b. "Sharing in Development in the Philippines, "better known as "The Ranis Report", ILO/NEDA, 1974.

(Not because the GOP has adopted its recommendations to any significant extent, which it has not, but because it spells out in detail the weaknesses and strengths of existing policies and practices in such areas as rural sector mobilization, industrialization and export expansion, organized and un-organized services sector, construction and housing, credit and interest rates, finance and domestic resources mobilization, foreign capital, education and human resources, and wage and price policies).

- c. "Rice Marketing System in Bicol, Philippines" by Ismael P. Catubig, Jr. - A doctoral dissertation, August 1977 (University of Hawaii).
 - d. "Intermodal Transport Study, Preliminary Report," 1976 by BRBDPO.
 - e. "Urban Functions in Rural Development -- Bicol River Basin Pilot Project: The Philippines," Dennis A Rondinelli, Consultant - Fourth Quarterly Report, Sept. 1977.
- Nov. 16-24: Intensive interviewing in Manila at GOP agency headquarters level, such as: Central Bank, Bureau of Telecommunications, Dept. of Agriculture, National Economic Development Administration, National Irrigation Administration, Pi. Ports Authority, Pi. National RR, etc.; and prominent businessmen and industrialists including ex-Bicolanos.
- Nov. 25-Dec. 5: Further interviewing in Bicol area, and participation in rural credit dialogue with a group of Rural Bank managers on the subject, "Repayment and Group Lending Study" led by Rodolfo M. Matienzo and Dr. Dale Adams of the Ohio State University.
- Dec. 6-9: Follow-up investigation in Manila at Central Bank, Dept. of Rural Banks & Stock Savings and Loan Associations; the Dept. of Industry; with Amicus Most, Consultant to Pi. Export Council, and with concerned, successful ex-Bicolanos businessman (Mr. Louie Villafuerte, President, Villafuerte Group of Companies) in preparation for his visit to Bicol for a dialogue with potential local entrepreneurial investors.

Dec. 10-17: Return to Bicol - Draft report of findings and recommendations; make oral presentation of same to BRBDP officers and obtain from them their critical comments and observations.

Dec. 18-19 & 21: Return to Manila; submit draft of report to D.M. Dembowski, USAID/ODM and R. Dengler, USAID-Capital Development Officer for critical commentary; also discuss findings with Willaim Sommers, USAID-AD/PD, and Irving Olsen, PAS Consultant to USAID on Real Property Tax Assessment Project.

Dec. 20: Travel to Legaspi for oral presentation of draft report to monthly meeting of BRBCC attended by, among others:

Atty. Salvador P. Pejo	BRBDP Program Director and BRBCC Chairman
Felix A. Fuentabella	Governor, Camarines Sur Province
Administrative Assistant (to)	Governor, Albay Province
Jose Fuentabella	Coordinator, Provincial Development Services, Camarines Sur
Bon Navara	Coordinator, Provincial Development Services, Albay
(????) Mr. PEPE	(????)
Napoleon Dignadice	Regional Director, DEC
Alberto Olaguer	Regional Director, NEDA
Vicente Lopez	Regional Director, DPHigh- ways
Crisanto A. Gimpaya	Regional Director, NIA
Pedro C. Caleon	Bur. of Mines, Officer- in-Charge
Jose Delvo	Regional Director, DLGCD

Dec. 22-24: Return to Washington, D.C. and at request of D.F. Wadley, USAID - AD/RD, deliver draft report to David Steinberg, AID/W, Asia Bureau, D. R. Mitchell, Asia/RD and Clifford Barton, TA/RD for critical commentary and observations from all sources.

Return report to USAID-Philippines for final typing and reproduction.

List of Key Contacts (Chronological)

- C.S. Callison, Economist/Planner, USAID-AD/RD, Bicol Office, Naga, C.S.
- Antonio Santiago, Sr. Economic Officer, Program Planning Dept., BRBDPO, Naga; Counterpart (acting) to Consultant; and Manager, Agribusiness Technical Staff Division, BRBDPO.
- Camilo D. Mendoza, Loan Evaluator, CB-IBRD Loan Team, Bicol Region, Naga, C.S.; subsequently, Dennis Dill, U.S. Peace Corp CB-IBRD program volunteer.
- Caesar P. Naag, General Manager, Area Marketing Cooperative (only one in Bicol), Naga, C.S.
- Antonio Flores, Branch Manager, DBP, Naga, C.S.
- Mr. Uday, Coordinator, Business Operations, Dolson Motors & AMS Press, Naga, C.S.
- Mr. Rick Erlano, Manager, Dolson Motors, Inc., Naga, C.S.
- Joaquin Buenaflores, President, Bicol Savings Bank, Naga with branch in Pili, C.S.
- Ramon Lee, Branch Manager, Family Savings Bank, Naga, C.S.
- Visit to SM INDUSTRIES, Thresher manufacturers, Naga, C.S.
- Mr. Constancio Cater, Provincial Administrator, Office of Governor Felix A. Fuentabella, Camarines Sur, Naga, C.S.
- Visit to NEDA Regional Office, Legazpi; discussions with Mr. Rodrigo Bernal, Asst. Director; Roger Nuestro, Agricultural Specialist; and Antonio Buenaventura, Legazpi, Albay.
- Visit to Small Business Advisory Center/Medium and Small Industry Coordinated Action Program, Legaspi Office, Albay; discussion with:

Jose C. Cagud, Chief	SBAC
Rodolfo Polano, Industry Analyst	SBCA
Gondelina Amata, Industry Analyst	SBAC

- Jocelyn R. Los Banos, Ind. Researcher SBAC
- M.G. Imperial, Indust. Devel. Spec. SBAC
- Noel Calvez, Project Development Analyst I - MASICAP
- Cynthia Golbeque, Project Development Analyst I - MASICAP
- Geronimo J. Moralit, Chief, DOT Trade Assistance Center, Region V, Legazpi, Albay
 - Jose Sarte, Jr., President, ABACA ARTS, Inc., Legazpi, Albay
 - Governor Felix Imperial of Albay Province, Legazpi, Albay
 - Visit to National Electricity Administration's Industrial Cooperative (a cottage industry), Sta. Domingo, Albay
 - Visit to "Crash Course" for Rural Bank technicians, conference center outside of Naga. Discussions with:
 - Erlinda Villamora Manager of Naga Rural Bank and President of Federation of North Bicol Rural Banks
 - Deli Alfelor Manager of Nabua Rural Bank
 - Leonor Cayetano Chief, Integrated Agricultural Financing program.
 - Jaime and Victor Bichara, Proprietors, BICHARA CINEMA CHAIN, headquarters in Naga
 - Archbishop of Camarines Sur and Chief of Private Advisory Council to the BRBDP, Pili, C.S.
 - Pete N. Prado: Director, Project Planning and Development, NIA Quezon City, Metro Manila
 - : Managing Director, CCC/IRDP
 - : Exec. Director, SAMAR Integrated Rural Development Program
 - Camilio Balisnomo & Bong Fernando, BRBDP Manila Liaison Office, Quezon City, Metro Manila.

- Visit to Economic Development Foundation, Makati, Manila
 - Higino C. Fabian, Vice President, Managing Consulting Service
 - Mr. Ramos, Chief, Economic Research Services
 - Mr. Art Mundes, Manager, Business Expectations and Consumer Confidence Surveys.
- Visit to Department of Trade, Manila
 - Edsel T. Custodio, Assistant Secretary, Bureau of Foreign Trade
 - Mac G. Orendain, Special Assistant for Domestic Trade
- E.P. Ladrido, Vice President, Sycip, Gorres, Valeyo & Co. (SGV & CO), Manila (SGV is carrying out agribusiness feasibility studies for BRBDP.)
- Mrs. Mijares, Chief, Department of Loans and Credit, Central Bank, Manila
- Percy Avrams, USAID Rural Credit Systems Specialist, Manila
- John Foti, USAID, USAID/Agricultural Development, Manila
- Mike Zosa, Assistant Secretary of Agriculture for Agribusiness, Quezon City
- Dalmacio S. Salting, Deputy Executive Director, Livestock Development Council, Dept. of Agriculture, Quezon City
- Visit to NEDA/ Industries Staff, Manila
 - R.B. Cinco and Mr. Evangelista, NEDA/IGLF Liaison Officers
- Dr. Ramon Nasol, Director, Center for Policy Studies and Economic Development, UP-Los Banos
- James Trevieres, USAID/LWUA Project, Manila
- Jun Castro, General Manager of Transportation, Pi. National Railways, Manila (also at meeting were five members of PNR Planning Team on ADB Loan Project.)
- Meeting at Philippines Ports Authority, Manila
 - Col. Dumlao, Asst. General Manager - Operations
 - Benedicto Selerio, Asst. General Manager, Planning & Engineering

Nester M. Castillo, Chief, Planning/Statistics Office

- David Parberry, World Bank Consultant to NEDA/Regional Development Staff
- Harry Pasimio, Director Economic Projects Office, NEDA, Manila
- Louie Villafuerte, President, Villafuerte Group of Companies, Makati, Manila
- Manuel Casas, Assistant Director, Bureau of Telecommunications, Manila
- Mr. Samson, Director, National Accounts Staff, NEDA, Manila
- Mr. Domingo Guevarra, President Volkswagen Philippines, Libertad, Manila
- Joseph Lawas, Director, Regional Development Staff, NEDA, Quezon City
(In charge of planning strategy for regionalization of investment incentives.)
- Ben. A. Geronime, Manager, Naga Branch, Land Bank, Naga, C.S.
- Rudolfo Vargas, Assistant Manager, Naga, Branch, Philippine National Bank
- Regidor Ovedo, Manager, Naga Branch, ALLIED BANK, Naga, C.S.
- Visit to Boat Building Yard and Fisheries Cold Storage and Ice Plant on Bicol River in Camaligan; Meeting with Argenio Guzman, President and owner.
- Romeo L. Santos, Proprietor, HACIENDA MAGDALENA (Sugar Plantation), Tigaon, C.S. (private advisory council)
- Angel P. Lobo, Field Operations Manager, BICOLANDIA SUGAR DEVELOPMENT CORP., Pili, C.S.
- Ciceró R. Brion, Branch Manager and Marcial E. Tuangui, Jr., Account Manger, BANCOR DEVELOPMENT CORP., Legazpi, Albay
- Jaime Stobez, Proprietor, MAYON Telephone Company, Legazpi and Tabaco, Albay
- Atty. Clod. Z. Reyes, Branch Manager, Development Bank of the Philippines, Legazpi, Albay
- Mrs. Media Trix Vallejo, Owner and Production & Marketing Manager, SHELMED TREASURES COTTAGE INDUSTRIES, Legazpi, Albay
- Simplicio Sabado, Branch Manager, Philippine Commercial & Industrial Bank, Naga, C.S.

- Tom Ricarto, Sr., Proprietor, VICTORY RICE MILL, Naga, C.S.
- Henry Chang - Branch Manager, CONSOLIDATED BANK, Naga, C.S.
- Atty. Burgos Ubana, Branch Manager, GSIS, Naga, C.S.
- Manuel Avella, Owner of agricultural and commercial properties in Naga.
- Atty. Vicente P. Sibulo, Mayor, Naga City, C.S.
- Antonio Hernandez, Manager, BICOL MOTORS, VW Franchised Distributors for Bicol, Naga, C.S.
- Mr. Juancho Trivino, Former Governor of Camarines Sur, owner of Coconut Oil Plant in Pasacao and of Sugar Plantation near Naga, C.S.
- Casar Macuja, Under Secretary for Small and Medium Industry, Department of Industry, Makati, Manila; also Chairman, Council of Small and Medium Industries.
- Virginia Llamas, Manager, SBAC/MASICAP Affairs, DOI, Makati, Manila
- Leopoldo Magpale, Asst. Manager, Dept. of Rural Banks & Stock Savings and Loan Associations, Central Bank, Manila (In re: CB-IBRD Rural Credit Project.)

RURAL BASED MANUFACTURING PROGRAM

RATIONALE

The objective of increasing per capita income is not expected to be borne by the primary sector alone (agriculture, mining and forestry). Rather, it is foreseen that for long-term economic growth and stability within the program area, a program must be formulated to induce development in the Manufacturing and Services Sector.

It is expected that the Services Sector (commerce, transport, construction) to contribute the second highest contribution to value added in the economy. However, this is due more to multiplier effects generated by investments in infrastructure to coax out additional agricultural productivity.

In terms of long term economic stability however, it is necessary to expand the economic base of the Basin Area. This is partly to offset limited growth potentials as man/land ratios near saturation point in agricultural productivity, to offset seasonal fluctuations in income derived from agriculture and their supporting industries, and, in the short term stabilize agricultural productivity.

Apart from Tourism, it is seen that development of secondary manufacturing and services will help stabilize agricultural productivity. First, it is expected that the sector will partially absorb the unemployed, the underemployed, and displaced agricultural workers; as the drive for increasing per capita output in agriculture accelerates. Second, by pursuing industry development utilizing agriculture-based raw materials, the value of agricultural commodity produce is enhanced, thus, negating to some extent some of the market price reductions generally expected as food surplus is attained.

As part of this strategy of expanding the economic base of the Basin economy, the establishment of labor-intensive and/or electric(?) -power-based industries must be encouraged. These are the areas by which the Basin has comparative advantage.

PROGRAM GOAL

- 1) To achieve price stability in the input and consumer markets for agricultural produce.
- 2) To reduce unemployment.

SUB-GOAL

- 1) To support the establishment of agribusiness ventures and other areas of semi-processing and processing industries utilizing local labor and power, including mineral and forestry products found within the Basin economy and its influence areas.
- 2) To support the establishment of these industries in locations consistent with the Urban Development Plan of the Basin.

PROJECTS' PURPOSES

- 1) To attract investors to the area, and support local investors;
- 2) To rationalize government agency programs in industry development by achieving coordination and integration.

PROJECTS' OUTPUTS

- 1) Pre-feasibility studies in desirable areas of investment.
- 2) Feasibility studies in areas considered critical to the economy, and where private investment has not made any effort.
- 3) A continuing information system for the business sector and for Basin industry planners.
- 4) A long term manpower development program to serve industry requirements.
- 5) Policy Studies.
- 6) An organizational scheme which will specify roles of different line agencies concerned with industry development.

ASSUMPTIONS

- 1) Intra-regional labor movements are not significant enough in the future to offset the changes of Basin-resident unemployed.
- 2) No cost-push inflation in agricultural commodity produce being utilized for raw materials in industry.

- 3) Traditional exports of semi-processed and processed agricultural, mineral and forestry products will continue current patterns of labor absorption.
- 4) Cost of living and Cost of Capital can be effectively regulated.
- 5) Support of the local governments and line agencies.
- 6) Support of fund donors both national and international.
- 7) It is assumed that per capita income is to increase as labor absorption in the secondary and construction sector improves because of minimum wage legislation in these areas of activity.

I. Agribusiness Feasibility and Pre-feasibility Studies

The medium-term program is designed to support agricultural productivity. Developing agricultural-based industries tends to stabilize prices for agricultural commodity outputs. In the same manner, establishment of support facilities (such as warehouses and cold storage) reinforces this basic strategy of commodity market stabilization as well as provide economic savings. Encouragement of inputs supplies (such as farm implements manufacture, credit, other material inputs) to supply right quantities, at the right time and place also will tend to develop a stable input market conditions for agriculture. It is not expected that this strategy will significantly affect current unemployment patterns. Although, it will contribute significantly to raising the absolute level of value added to the economy and full capital development as it has done in the past.

The strategy for undertaking the studies is by contract to the private sector and "in-house" inter-agency studies. There were 25 projects identified to be undertaken in the 1976-1977 period expected to cost ₦1.25 M. In the medium-term, only pre-feasibility studies will be undertaken for other agricultural linkages especially food processing and packing for exports, except where the private sector may not pick up critical investment opportunities. The studies program is expected to last for five years and will cost ₦.8 M every year.

II. Business Information Program

The program is designed to provide adequate and timely information for the business sector and business development planners. Institutionalizing statistical information especially in the area and linked with national information systems will facilitate decision-making locally. Investors are more inclined to be attracted in an area if they know more of the area and access to such information and facilities were not tortuous.

The program will be developed in three phases. Phase I will involve data-generation to supplement long-term planning for the business sector. Current requirements for statistics in long-term planning and strategy setting are divided into three classifications:

- a) Markets - labor markets and movements, agricultural commodity markets, semi-processed and processed manufactures, export markets.
- b) Industry - capacities, rates, profitabilities.
- c) Economic Research - business cycles, capital investments, capital output ratios, capital intensities, employment, etc.

In phase I, local agencies information output and information-generating capability will be reviewed, assessed and organized to focus on the business sector's long-term planning requirements. This phase is expected to last for three to five years. Expected cost ₱.8 M.

In phase II, the emphasis will be on refining the accuracy of organized, coordinated information-generating capability for long-term planning statistics. In addition, annual and quarterly type statistics will be started. A feasibility study for information processing and delivery facilities is contemplated at this point. This phase is expected to be completed in five to eight years. Expected cost ₱1.0 M.

In phase III, the emphasis will be on forecasting capability and timely availability especially of quarterly and yearly statistics. Expected cost ₱.5 M.

The strategy for implementation will be done by "inter-agency" task force with some statistic consultant.

III. Manpower Development Program

The program aims to meet the necessary skill and managerial requirements of semi-processing and processing industries in the basin area. The program has three phases:

Phase I would involve supply and demand studies for labor. This is estimated to cost ₱200,000 and will run for six months.

Phase II would involve a study of alternative designs of executing such a program and identification of its project components. This is estimated to cost ₱500,000 and will run for six months.

Phase III would involve implementation with capital funding for projects which may include upgrading of current institutions and/or establishing new institutions. Estimated cost is variable but may not exceed ₱100 M. The Program will be undertaken by interagency task force.

IV. Policy Studies

Policy studies by their nature will be non-recurring but necessarily a continuing activity in prosecuting investment promotions. This is one final output of economic research found in the Business Information Program. A policy study may warrant direct government investment in business establishments necessary to attain the objectives of the BRBDP, may move for some regulating or encouragement schemes in "distressed" or "priority" industries, etc. Four (4) projects are contemplated for the next two years.

- 1) Integrated Agricultural Financing: The IAF seeks to provide for a period of one year integrating all this farm activities. Some pre-implementation studies will be started this year prior to pilot-project testing. Project cost ₱2 M. (including pilot testing).
- 2) Incentives Schemes Study: The study will explore mechanisms of providing statutory and localized financial enticements to agribusiness ventures and industries locating in the area. The study will also focus on "liberalizing" procedures and policies for industry establishment and operations. Project cost ₱250,000.
- 3) Agro-industrial Estates: A pre-feasibility study

will be undertaken for several alternative sites for agro-industries in the area, aimed at rationalizing business establishment locations to jibe with the Basin's land use plan. Project cost ₱500,000.

- 4) Investment Promotions "Bureau": May be necessary to coordinate an inter-agency effort at institutionalizing attraction of investors' in economically desirable industries in the area, which will handle the entire process of attraction, servicing processing of new establishments and getting establishments settled in. This is on top of current planning and programming efforts being carried out under the BRBDP. Policy studies will be undertaken by interagency task force.

IMPLEMENTATION SCHEDULE RURAL BASIN MANUFACTURING DEV. PROGRAMS & PROJECTS	Y E A R					Y E A R	Y E A R	ESTIMATED COST
	1	2	3	4	5	6 - 12	13 - 25	(In ₱ Million)

1. Agribusiness Feasibility & Pre-feasibility Studies

Pre-feasibility Studies	xxxxxx - - - - -	₱1.250
Feasibility Studies	xxxxxx - - - - -	

2. Business Information Program

Phase I	xxxxxxxxxxxxx - - - - -	₱ .800
Phase II	xxxxxxxxxxxxxxxxxxxxx - - - - -	1.000
Phase III	xxxxxxxxxxxxx - -	.500

3. Manpower Development Program

Phase I	xxxxxxxx	₱ .200
Phase II	xxxx	.500
Phase III	xxxxxxxxxxxxxxxxxxxxxxxxxxxxx - - - - -	100.000

4. Policy Studies

1. Integrated Agricultural financing	xxxxxx	₱2.0
2. Incentive Schemes	xxxx	.250
3. Agro-Industrial Estates	xxxxxx	.500
4. Investment Promotions Bureau	xxxx	

BRBDP Rural Based Industry Development Program

TERMS OF REFERENCE

FOR

Filipino Senior Consultant: Agribusiness and Rural Based
Industries Development in the
Bicol Region

I Background:

Pursuant to Presidential LETTER OF INSTRUCTIONS NO. 543, dated 20 May, 1977, concerning "Preparation of an Integrated System of Regional Development Incentives" addressed to the Secretaries of Finance, Economic Planning, and Industry; the Governor of the Central Bank and all GOP Department Heads -- the Bicol River Basin Development Program in coordination with NEDA is in the process of developing strategies and a program of action intended to assist and encourage private sector investment in agribusinesses and other rural based industries in the Bicol Region.

The GOP, assisted by various international development agencies, has underway many development programs whose impact is and will be improvement of countryside physical, social, financial, and economic infrastructural environments for private sector business and industrial investments. The Bicol Region is a beneficiary of these programs which have witnessed completion of the Manila-South Road and the tying in of key Bicol cities to the main Luzon Electric

Power Grid which is soon to access power from the Tiwi (Bicol) Geothermal Electric Power plant. Several IAD water and irrigation control projects are underway or soon to be implemented. Various social development programs and projects bearing on health, education, vocational training, and tourism facilities are on-going in the Bicol. National, provincial, and feeder road projects are underway or ready for implementation as is also the case for railroad, seaport and airport projects. Most important, various agrarian reform and agricultural/fisheries development programs or projects are being implemented.

While public sector physical and social infrastructure development programs will of necessity require decades for completion, since they must be expanded as the economic development occurs, it is essential that private sector participation in such development be aggressively promoted to grow at a commensurate rate. The capability for monitoring the level of growth of private sector participation is essential to BRBDP/NEDA in order that effective promotional planning may be done. An improved benchmark data base is needed immediately as well as the establishment of permanent survey mechanisms to permit periodic measurement and analysis of progress toward private sector development objectives and identification of constraints militating against achievement of those objectives.

II Objectives for which the Consultant Services are to be used:

- A. To assist BRBDP/NEDA in the development of strategies and action programs aimed at:
1. identifying potential investment opportunities,
 2. identifying potential investors and prioritizing investment opportunities,
 3. identifying disincentives and constraints faced by potential investors, and suggesting steps by which they might be ameliorated, and at
 4. stimulating a more rapid rate of private investment in agribusiness, processing, manufacturing and other rural based industries and business services by recruiting potential entrepreneurial investors and providing to them guidance in getting projects underway.
- B. To provide guidance to the BRBDP/NEDA in the establishment and activation of a permanent organizational framework for continuing investment opportunity identification and promotion for the Bicol Region.

III Description of Specific Tasks (duties) of the Consultant:

- A. Working closely with a BRBDP counterpart, a GOP interagency task force, and with such other senior consultants as may from time to time be engaged to assist in the development of a Bicol region private sector investment promotion program:

1. The consultant will initially participate in the on-going reconnaissance effort, that is, defining the current state of affairs vis-a-vis existing investment disincentives and incentives, and identification of specific agribusiness and industrial investment opportunities in the Bicol Region, both for expansion of existing business and manufacturing activities and for the introduction of new ones:
 - a. A recording system should be devised for monitoring specific disincentives and actions taken, or incentives promulgated, toward their amelioration.
 - b. Likewise, two log books should be devised; One, for systematically defining, in summary form, investment opportunities in the Bicol Region, taking due note of major constraints which may impact upon each such opportunity; and the Other, for systematically recording significant new business and industrial investment projects as they are undertaken. (A partial benchmark data base for this activity exists from two sources: NEDA periodic "Establishment Surveys" and the 1975 SSRU "Bicol Establishments Survey No. 1" (BES-1).
2. Also, in the context of the on-going reconnaissance effort, and taking into consideration existing and forth-coming

GOP incentives programs (Investment, Agricultural, Agribusiness, Cottage Industries, Cooperative Marketing, Small & Medium Scale Industry, Export Industry, and Regional), the Consultant will assist in the preparation of recommendations regarding appropriate and realistic public and private sector strategies and programs of action aimed at improvement of private sector investment incentives and stimulating a more rapid rate of such investment in agribusiness and other rural based industries in the Bicol.

a. In this connection, an in-depth analysis of sources and availability/terms of credit for rural based industry in the Bicol should be carried out initially, and a system devised for up-dating the derived information on a periodic basis.

B. The Consultant will assist in the drafting of Terms of Reference for further studies and technical assistance inputs which arise in connection with formulating the recommendations called for in Paragraph A 2, above. It is anticipated that those recommendations may call for the services of additional consultants to assist in the carrying out of specialized studies aimed at improving the data base required for effective investment planning and promotion, and for defining and implementing new investment promotion programs and projects. Such studies and projects might include:

1. Development of a system for periodic measurement and analysis of commodity flows into and out of the region in order to identify opportunities for "import substitution" and "export processing" activities.
2. Product-specific comparative advantage ("Make or Buy") studies: for example, ready-to-wear apparel, foot wear, appliance assemblage, wooden furniture and household articles, plastic household articles, metal and ceramic utensils, plywood and building materials.
3. Studies with emphasis on marketing feasibility, cost-benefit and IRR whose objective would be upgrading of the current low priority status allocated by concerned potential sponsoring institutions but which have a high priority status in terms of integrated Bicol Region economic development programming: For example,
 - a. Port development at Pasacao
 - b. Establishment of intra-regional telecommunications "Toll Switching Centers" in the Bicol
 - c. Development of railroad and port bulk cargo handling facilities at key transport terminals in the Bicol
 - d. Establishment of Industrial Estate/EPZ complex and bonded warehousing.
4. Development of regional GNP expenditure accounts to permit economic analysis of public fiscal and monetary policies

affecting the region and to provide insight into such matters as the deflationary/inflationary effects of monetary flow patterns, the propensity to consume/save in the Bicol, the investment multiplier, the probable regional effects of alternative tax schemes or the introduction of differential factor/price incentives (eg: reduced rates for electric power in the Bicol), etc.

5. An in-depth appraisal of the practicality of delegating responsibility for the development of private sector investment in the Bicol, selectively or in the whole, to one or more private development corporations on a commission or fees against performance basis.
 6. An in-depth appraisal of potential effectiveness of making investment promotion a primary technical function of the Bicol Rural Development Liaison Office in Manila.
 7. An in-depth appraisal of the efficacy of establishing a small, private sector industrial development advisory committee whose membership would consist of concerned and successful ex-Bicolanos resident in Manila as counterpart to the business/industry wing of the existing domestic BRBDP Program Advisory Committee (PAC).
- C. The Consultant should assist the BRBDP in coordinating its private sector development efforts with those of other GOP or specialized organizations line agencies/operational in the Bicol Region. In this connection,

the Consultant shall assist BRBDP in identifying and defining means by which it might augment particular line agency operations to the mutual benefit of its own program and those of the line agencies concerned. For example:

1. it might be possible for BRBDP to help NEDA/NCSO expand the Bicol region sampling bases for its regular Household Expenditures, Establishments, and Commodity Flow surveys (Rail, Sea and Air) thus to permit a more detailed level of analysis at the regional level than is possible at present.
 2. it might be possible to assist BOI in locational prioritization of investment project incentives relative to the Bicol Region.
 3. it might be possible to assist the DOT Trade Assistance Center (Legazpi) in improving its marketing intelligence system on both the supply and demand sides of the export development equation.
 4. it might be possible to assist NACIDA in the identification of additional types of cottage industries for which the required skills are available or could be readily developed in the Bicol, but which have not been exploited commercially to date.
- D. The Consultant should assume responsibility for devising effective means by which to organize private sector entrepreneurial leadership in the Bicol for industrial investment

development through energizing such agencies as, but not limited to, Chambers of Commerce and Industry, the RDC, bankers' associations, trade and industrial associations, etc.

IV Reports by the Consultant:

A. Work Plan:

At the end of one month, the consultant shall submit a plan of work which shall be considered firm for the succeeding two (2) months, and at least tentative for the subsequent three months. This work plan shall be reviewed by the appropriate BRBDP authorities and modified in such aspects as may be mutually agreed upon by the review committee and the consultant.

B. Progress Reports:

Progress reports shall be submitted monthly indicating not only what has been accomplished but also any modifications to the original future work plan which may have become necessary in the meantime.

The review committee shall discuss progress reports with the Consultant within one week of their submission.

C. Final Report:

The Consultant's final report in draft form shall be submitted two (2) weeks in advance of termination of his contract. It shall, of course, detail all accomplishments

to date and append such documentation thereof as may be available. The final report shall be explicit regarding work remaining to be accomplished, especially those activities for which continuation of the Consultancy might be justified (a preliminary estimation of the latter should also be contained in the Consultant's Third Progress Report.)

V Duration of Consultant Services:

The initial contract for this consultancy is for six (6) months. It is subject to possible renewal for six to twelve months subject to apparent need at termination of the initial contract.

VI Logistics:

VII Compensation:

To: Mr. Don F. Wadley

December 6, 1977

From: D. W. Adams

Subject: Suggestions on Additional Research on Rural
Finance Topics in the Bicol Region

As I suggested earlier, you may want to consider doing some additional research on rural finance problems in the Bicol region after Lincoln Armstrong completes his study. You may want to consider at least 4 additional topics. A brief outline of the major issue which might be treated under each of these topics follows:

- (1) Research on the structure and recent performance of formal rural financial markets in the Bicol. The main focus of this study should be to document the flows of funds through formal financial markets within the region and between the Bicol and the rest of the country. This would include looking at the sources and uses of these financial flows. It would also trace the pattern of these flows over the last few years. The study should also document the kinds of services provided by the financial system. This would include the term structure of loans, sectors served by loans, economic classes served by loans, collection performance, and savings mobilization performance. Special attention should be given to how well the rural based industries and service enterprises are serviced by formal rural financial markets.
- (2) Behavior of formal lenders in the Bicol. This study would focus on the formal lenders including private rural banks, commercial banks, development banks, PNB, credit unions, savings and loan associations, cooperatives, ACA, and the Land Bank. It would attempt to identify the revenue and costs related to different formal lenders' activities. Particular attention should be given to the lending activities aimed at rural based industries and service firms. The key question to answer here is, why do lenders lend to or avoid lending to their particular group. The study should also ask lenders' opinions about why they don't lend more to their target group.
- (3) Policy measures for altering lender behavior. This would be largely a think piece which outlined the various policies which might be used to encourage,

induce, or force financial markets to lend more to rural industries and service firms. It would be useful for the writer of this paper to extensively discuss the various proposals with local lenders and Central Bank officials.

- (4) The structure and operations of informal lenders in the Bicol. A large part of the finances necessary for growth in rural based industries and service firms will be provided by private sources. It may be useful to know more about how these informal sources of credit currently operate, and the magnitude of their operations. Ideally, the amount of informal credit should expand with the volume of formal credit. Policy makers will need to know more about the operations of informal lenders so the formal lending activities will not cause undesirable changes in informal lending. Cliff Borton's work in S. Viet Nam got into most of the issues which might be covered in this particular type of study.

You should be able to find local professionals who can carry out the first two studies I'm suggesting. Someone like Claudio Gonzalez-Vega from Costa Rica or Jerry Ladman at Arizona State could do study number 3. Cliff Borton or Charles Nesbet from Evergreen State College in Washington could do study number 4. Ron Turnermeier of Colorado State might also be able to help on one of these studies. Check with Anne Ferguson on Ron's activities.

I hope these very rough ideas are of some value to you and or Lincoln.

Let me know if we can suggest any additional names of people or agencies to do any of these studies if AID decides to do further research in the finance area.

DWAdams:CSCallison:fmj
AD/RD 12/12/77