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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROJECT PAPER

PHILIPPINES

SMALL FARMER SYSTEMS II

492-0334

SEPTEMBER 1985

USAID/MANILA

UNCLASSIFIED

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number
1

DOCUMENT CODE
3

2. COUNTRY/ENTITY
 Philippines

3. PROJECT NUMBER

492-0334

4. BUREAU/OFFICE

ANE

04

5. PROJECT TITLE (maximum 40 characters)

Small Farmer Systems II

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
09 30 86

7. ESTIMATED DATE OF OBLIGATION
 (Under "B:" below, enter 1, 2, 3, or 4)

A. Initial FY 81

B. Quarter 1

C. Final FY 86

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 81			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(500)	(-)	(500)	(690)	(560)	(1,250)
(Loan)	(7,100)	(-)	(7,100)	(4,600)	()	(4,600)
Other U.S.						
1.						
2.						
Host Country	1/ LOP funding reflects deobligation of \$2,500,000 in loan funds, effective FY 1985.					
Other Donor(s)						
TOTALS	7,600	-	7,600	5,290	560	5,850

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ARDN	B218	010	010	500	7,100	750	-2,500 ^{2/}	1,250	4,600
(2)									
(3)				2/ Above amount reflects the FY 1985 deobligation action.					
(4)									
TOTALS				500	7,100	750	-2,500	1,250	4,600

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

020 032 070

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BF Part
 B. Amount N/A N/A

13. PROJECT PURPOSE (maximum 480 characters)

To create an efficient, institutionalized, farmer managed system that provides small farmers with needed physical inputs, technology, and services for irrigation, production, processing and marketing.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
05 86

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

This amendment provides funding for technical assistance, commodities and training to enable FSDC to upgrade the financial and management capabilities of Central Office and six (6) area offices, and assistance to develop appropriate program priorities for the future.

17. APPROVED BY

Signature: *Frederick N. Schieck*
 Title: Frederick N. Schieck
 Director, USAID/Philippines

Date Signed
 MM DD YY
09 23 85

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

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SMALL FARMER SYSTEMS II PROJECT PAPER AMENDMENT NO. 1

PROJECT NO. 492-0334

SUMMARY AND RECOMMENDATIONS

1. Borrower/Grantee : The Republic of the Philippines (GOP)
2. Implementing Entity : Farm Systems Development Corporation (FSDC)
3. Loan/Grant Amount : Loan - \$4,600,000 (after FY 1985 deobligation of \$2,500,000)
Grant - \$1,250,000 (including additional \$750,000 proposed herein)
New Total - \$5,850,000
4. Purpose: The proposed project amendment will provide technical assistance and training to FSDC to enable it to upgrade its financial and management capabilities in its central office and six area offices and to assist it in developing appropriate program priorities in the future. This is a necessary step to enable FSDC to achieve the overall project purpose of creating an efficient, institutionalized, farmer-managed system that supports small farmers.
5. Project Description : The additional \$750,000 grant will be utilized for contracting technical services to help resolve technical, financial and management problems, and to provide necessary training and ancillary assistance to meet project objectives.

6. Project Finance (US\$000)

<u>Original Loan</u>	Various components	\$7,100
<u>Loan Deobligation</u>		(2,500)
<u>Original Grant</u>	(no change from original SFS II Project Paper)	500
<u>New Grant</u>	Technical Assistance Contract (Inputs to this project will include consultant services, training, and supporting commodities)	750
	TOTAL PROJECT COST	<u>\$5,850</u>

7. Application: The GOP's application is included as Annex A.
8. Statutory Requirements : All statutory requirements have been met. (See Annex D, statutory checklist)
9. PACD Status: The current PACD is Sept. 30, 1986. Extension of the PACD will be considered prior to execution of the proposed contract for a General Consultant and again upon subsequent assessment of revised project objectives and needs.
10. Recommendation: That a \$750,000 increase in grant funding to the GOP be authorized.

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I. Background

The Farm Systems Development Corporation (FSDC) is an autonomous, public corporation which was established in April, 1975 by Presidential Decree No. 681 to promote the organization and support of irrigation cooperatives and other farmer-based associations. The primary purpose of this organization is to increase agricultural productivity, raise farmer incomes and promote rural development. Since its creation, FSDC has been the recipient of three loans from the Agency for International Development (AID) totalling \$23.6 million and three grants totalling \$2.068 million. The current AID-financed Small Farmer Systems II (SFS II) Project with FSDC is a \$7.6 million activity (\$7.1 million loan, \$500,000 grant) which provides financial and technical assistance. This project continues to support irrigation and institutional development activities initiated under the previous AID projects. In addition, the project supports: (1) six pilot enterprise development projects under the direction of the provincial Federations of Integrated Services Associations (KAISAs); and (2) six pilot upland development projects which are designed to support income-producing activities for upland farmers.

To date, largely through USAID-assisted projects, FSDC has been able to provide a variety of services to an estimated 2,240 Integrated Services Associations (ISAs) and to some 65 KAISAs registered with it. The ISAs are multifaceted rural development organizations which assist rural farmers to operate, maintain and repair their pump and gravity irrigation systems. To date, some 120,000 farm families are participating in ISA programs and 230,000 hectares of previously rainfed farm land are being irrigated.

FSDC has been particularly active in promoting small-scale irrigation development. A USAID evaluation of the irrigation project pointed out FSDC's capacity to effectively organize and bring rural farmers into community based groups using irrigation as the entry point. FSDC's mandate in recent years has been expanded by Presidential decrees to promote not only irrigation development but to include rural upland development, coastal fisheries, agro-industries, gasifier conversion and other off-farm activities.

The diversity of FSDC programs and the expansion of its role in rural development has imposed a heavy burden on its financial and management resources. However, under the Small Farm Systems II Project (SFS II), FSDC has continued to achieve impressive results under the irrigation component of the project. Since September, 1981, FSDC has completed construction and/or upgrading and rehabilitation on some 141 irrigation subprojects of which 120 are rehab pump irrigation subprojects (PIP), 13 are new communal irrigation subprojects (CIP) and 8 are rehab CIP subprojects. Some 150 others are currently under construction and/or are being rehabilitated. Formal participant training of approximately 150 Farm Systems Development Corporation (FSDC) and KAISA staff members in project management has been completed. In addition, informal training in rice production, water management, livestock and crop management, grain storage and marketing, and farm planning and budgeting has been provided to some 5,000 ISA members and their families. Despite these achievements, technical, financial and management constraints are increasingly impeding progress toward project objectives under the SFS II Project.

As a quasi-government corporation, FSDC and numerous other GOP public corporations and their subsidiaries have been adversely affected by the current economic and financial crisis in the Philippines. Many are facing both financial and operational difficulties. This situation has resulted in a financial burden to the Government of the Philippines at a time when its deficit is increasing. Many of these government corporations are faced with an uncertain future and with drastically reduced national government equity contributions and/or advances to individual public agencies. Public corporations engaged in agriculture, such as FSDC, have also been affected in recent years by unfavorable weather conditions which dampened agricultural production growth and damaged physical infrastructure. Moreover, GOP import policies reduced the availability of imported agricultural inputs thereby further affecting agricultural productivity.

Agricultural productivity is further affected by the lack of government coordination among government agencies responsible for policy direction in the agricultural sector and for assisting farmers. FSDC operates within this large, complex government structure of ministries and government agencies. For example, FSDC is one of four agencies presently involved in organizing farmers at the village level. It also shares with two other government agencies irrigation systems and other related farm-infrastructure development responsibilities. While the Ministry of Agriculture (MA) has traditionally provided policy direction in the agricultural sector, an effective mechanism for determining directions and defining priorities for formulating optimal

agricultural policies and investment programs is apparently lacking. This situation has led to fragmentation and confusion among agencies which have responsibility for agricultural programs. Although FSDC continues to maintain linkages with other government institutions which share its program objectives and cooperative goals, the success and effectiveness of its projects to generate farm-level support are greatly affected by a lack of coordinated government policies. Given FSDC's limited resource base at any point in time, the current government structure becomes highly incompatible with the proper assessment of program effectiveness and measurement of investment returns. To a degree, this limitation has affected FSDC's ability to identify worthwhile projects for investments.

In September 1984, the Asian Development Bank (ADB) appraised FSDC's financial position in connection with the proposed \$29 million loan package of the International Fund for Agricultural Development (IFAD) to finance FSDC projects in five key areas: on-farm irrigation projects; upland development; coastal fisheries; agro-industries; and gasifier conversion. The ADB appraisal noted a variety of financial and management weaknesses of FSDC. Its three major findings were: (1) that FSDC's current financial state of affairs raised serious questions regarding the short and long-term viability of the organization; (2) that FSDC could not become financially sound and a self-sustaining institution unless its on-lending interest rate structure is significantly upgraded; and (3) that the accounting system, which is required by the Commission on Audit (COA) for FSDC, is incompatible with the business

requirements of a lending institution. Based on its findings, ADB decided not to enter into a joint financing arrangement with IFAD until such time that the GOP and FSDC have initiated corrective action.

Three recent USAID assessments seem to bear out the findings of the ADB appraisal report. A 1984 USAID assessment of KAISA enterprises found that such enterprises generally suffer from serious operational and financial problems. These problems were attributed to deficiencies on FSDC's skills and experience in project preparation and analysis, enterprise planning and management, monitoring and evaluation. This assessment also pointed out that poor marketing feasibility studies and overestimates of both raw material supply for ISA members and markets for finished products have adversely affected project results. Moreover, weak management of the KAISAs and low pricing strategies have resulted in poor financial performance by the KAISAs. Likewise, an April 1985 assesement of the Philippines' Rural Energy Development (RED) Project pointed out the following findings: (1) that a successful FSDC gasifier program for irrigation purposes will require an improvement in both FSDC's technical and management competence; and (2) that the charcoal production subproject needs to address key institutional, management and technical issues before the Rural Energy Development project can improve its performance.

Finally, a detailed assessment by Price Waterhouse (PW) of FSDC's financial and management problems was contracted by the Mission in July-August 1985. These findings verified and complemented earlier assessments and are

contained in a separately available report. In summary, the Price Waterhouse report indicated the following: (1) FSDC's role in meeting agricultural policy objectives needs to be examined in light of ongoing GOP efforts to rationalize agricultural development efforts. Furthermore, if the dual objectives of FSDC (commercial development activities and social service activities) remain in place then the organizational and financial arrangements to meet these two objectives must be developed to adequately meet the different requirements of each; (2) FSDC is in a very precarious financial condition due to both external and internal factors which need to be addressed if FSDC is to continue to survive. External factors include a substantial increase in foreign debt liabilities brought about by recent peso devaluations and adverse impacts of agricultural pricing policies on farmers who in turn had problems in repaying FSDC loans; (3) FSDC has major financial problems due in part to its ambitious program to expand its activities into a broad range of areas. This expansion imposed a large investment and operational cost burden while GOP equity contributions were inadequate to finance FSDC's operations; (4) FSDC has a number of problems in its lending program which must be corrected if it is to improve its poor collection rate, maintain reliable records and provide proper management reports; (5) accounting systems and procedures need to be improved; (6) a stronger financial management and project monitoring system is needed; (7) FSDC's organizational structure could productively be streamlined; and (8) an improved communications system is needed to maintain contact between FSDC central, regional and local staffs.

II. Problem Analysis:

FSDC's financial position and management capabilities have been weakened by a number of factors, both external and internal to FSDC.

A. External Factors Affecting FSDC:

GOP budgetary restrictions and policies resulting from the impact of the current economic crisis on the domestic budget have had an adverse impact on FSDC's ability to carry out its programs which include SFS II. The GOP's restrictive policies include "no hiring" policies, limited training activities, salary freezes, reduced capital budgets, reduction in plantilla positions, and forced savings on the operating budget. Such restrictive policies have impaired FSDC's financial capabilities to develop and maintain staffing levels and to establish good communication between the central office and six field offices -- factors which are crucial to the effective undertaking of FSDC programs. They have also affected FSDC's ability to upgrade its facilities and adequately support its program implementation activities.

Moreover, GOP policies require FSDC to bear the exchange rate risk on foreign loans and this has substantially increased FSDC's liabilities as a result of the peso devaluations of the past two years. FSDC receives the proceeds of foreign loans in pesos at the exchange rate prevailing at the time proceeds are released and repays such foreign loans using the prevailing exchange rate at the time of repayment. The sub-borrowers who are the ultimate beneficiaries of these loans are required to repay only the amount of

pesos which they actually received as loans. FSDC has had problems in addressing the increased debt burden which has been caused by devaluation. Presently, FSDC is paying interest charges on foreign loans at the current rates of exchange.^{1/} Although FSDC states it has received GOP assurances that the GOP will bear the foreign exchange risk for all new and existing foreign loans, this assurance cannot be certain in view of the grave economic situation confronting the Philippines today.

Equity contributions from the Government (about P25 million per annum on the average) and the high rate of return from investments in money market placements have kept FSDC from folding to date. However, even with these contributions and other extraneous income it has not been possible for FSDC to make any provisions for bad and doubtful loans. In 1983, its net surplus stood at less than a million pesos. Its loan collections are estimated to be less than 50 percent of the total loan portfolio.

B. Problems Internal to FSDC:

The above external factors have exacerbated FSDC's internal financial and program management weaknesses. These internal weaknesses are structural in nature and have seriously affected FSDC's capability to respond to external problems. GOP budgetary restrictions and policies adversely affect FSDC's ability to carry out its programs, and the recent findings of

1/ Over life of this project average rates of exchange have changed as follows:

1981 - \$1 = P7.9

1983 - \$1 = P11.1

1984 - \$1 = P16.7

USAID and the Asian Development Bank (ADB) discussed above have indicated that FSDC's accounting methodology, which is required by COA, and loan management policies and procedures, which are required by COA, are outmoded and inappropriate for determining FSDC's financial position and for the effective management of its loan portfolio.

1. Loan Terms and Policies:

FSDC is a non-profit service institution chartered to assist the poorest segment of the rural community. Hence, the interest rates charged its beneficiaries are significantly lower than the market rates or those levied by banking institutions. As of June 1984, FSDC had granted loans of ₱170 million to ISAs and ₱130 million to KAISAs at very concessionary rates ranging from 0-12%. On the overall investment package of FSDC, the rate of average earning is 3.5%. While FSDC's cost of funds (2%) is highly concessional, its administrative costs (6.5%) together with its yet to be declared doubtful loan provision create a considerable gap between expenses and income. Because of this gap, plus the need to consider exchange rate adjustments, it is clear that an upward adjustment in the on-lending interest rate structure should be considered if FSDC is to continue operating as currently structured.

2. Loan Management: Upward adjustment in the rate structure to borrowers will enhance FSDC's financial position only if the organization is capable of collecting loans as they come due. FSDC currently holds approximately 2000 loan accounts which creates a morass of paperwork for a technical assistance organization. Loan accounts are maintained at both the

central office and six (6) areas offices. The central office generally receives loan returns and compiles statements for arrearages once a year. FSDC area offices are responsible for the actual supervision and monitoring of subloans, but they lack information on the current status of overdue accounts.

ISA-level borrowers also appear uncertain regarding how much they owe and when to pay. Given the current state of loan management procedures, it is highly unlikely that FSDC will be able to collect or reschedule loans in a timely fashion. The absence of adequate documentation makes it difficult to control loan recovery. Moreover, there are no penalty charges on overdue interest payments. Such charges should be levied since they reflect opportunity cost of capital to FSDC and will serve as an incentive to more timely repayment.

3. Bookkeeping and Accounting Procedures: FSDC's current bookkeeping system does not allow for an efficient management of accounts. The ISAs, KAISA, FSDC area offices, and the central office keep different and oftentimes contradictory sets of loan records. Loan records sent to the central office for the purpose of documenting the overall state of loan arrearages are usually incomplete and lack necessary and important information. The absence of adequate documentation makes loan recovery more difficult. In addition to the absence of effective control and supervision, the current system is duplicative and imposes an unnecessary burden on staff at all levels.

FSDC's accounting system has gone through a series of changes in an effort to determine the best applicable system. The creation of FSDC area

offices in 1978 led to the decentralization of the accounting system. Inadequate manpower in the area offices, however, resulted in delays in recording of transactions and improper maintenance of accounts and subsidiary records. To correct the problems created by decentralization, FSDC in 1981 shifted to centralized bookkeeping with a minimal increase in personnel. The area offices continued maintaining records of area office-related transactions. Centralization of bookkeeping then facilitated the preparation of financial statements and reports and considerably improved the reliability of records. However, monitoring of loan accounts at the area office has been adversely affected since exchange and validation of information between central office and area office could not be accomplished within the acceptable period due to geographical distances and lack of resources to improve the communication network between the central and area offices.

In summary, the above problems indicate a serious limitations on FSDC's capacity to accurately assess its current financial position and to undertake effective corrective actions. If FSDC is to continue to act as an intermediate credit institution, it will be necessary to institute accurate information systems, and tighter financial controls and procedures.

4. KAISA Organization and Enterprise

Within the context of overall finance and administration discussed above, the KAISA organizations are a major source of financial uncertainty. In 1980, FSDC developed the KAISA concept with the idea of promoting independent, self-reliant and viable provincial organizations to

provide over 2,000 established ISAs with technical advice and access to credit and production inputs. The KAISA concept was also conceived to eventually undertake cooperative enterprises on behalf of their members and to become independent from other commercial and government entities involved in rural agriculture. In order to establish some 65 KAISAs, however, FSDC has had to extend large volumes of concessional credit. The KAISA organization is supposed to repay FSDC loans out of profits from its enterprise operations and from payment for technical services provided to ISA members. To date, FSDC has loaned out some P80 million to KAISAs to meet their institutional development expenses. Under current conditions, it does not appear that most of these loans will be repaid by KAISAs since the KAISAs have not been able to generate the necessary profits.

An April 1984 USAID Assessment Report of the program concluded that:

(1) the majority of KAISAs are still dependent on FSDC for financial and technical assistance; (2) the majority of KAISA enterprises continue to lose money and are highly illiquid; (3) given the weakness of FSDC's current financial position and the amount of funds tied up in the KAISA program, it is an appropriate time to consider streamlining the overall KAISA program; (4) KAISA's with the best prospects for success should be strengthened; and (5) loans to those with poorer prospects should be phased out.

In short, as the above analyses have pointed out, FSDC is faced with a classical development dilemma: it has geared its program to helping rural poor people but has not been able to generate sufficient revenues to adequately cover the high overhead such a program engenders. Moreover, by

attempting to address rural problems on a large number of fronts, FSDC has overextended its limited financial and human resources. While FSDC's objectives are certainly admirable, it has not been able to solve the dilemma of how to mobilize and manage sufficient resources to meet its objectives on a sustained basis. This project amendment will help FSDC to better come to grips with this important developmental issue.

III. The Project

A. Project Rationale, Goal and Purpose

The project purpose of SFS II will not change as a result of additional grant funds provided under this amendment. The project will continue to aim toward development of an efficient, institutionalized, farmer managed system that provides small farmers with needed physical inputs, technology, and services for irrigation, production, processing and marketing.

However, within the broad outline of this mandate, the project amendment will facilitate a thorough review of FSDC's policies and priorities and help FSDC redirect its efforts out of activities proven ineffective or beyond FSDC's management capabilities. At the same time the project amendment will enable FSDC to stabilize and strengthen its financial position. It will help FSDC to develop and implement financial and management policies, systems and procedures that are necessary for prudent and effective management of FSDC. The amendment is expected to increase the efficiency of FSDC's operations with the objective of enabling the organization to better meet its operational and program requirements. By strengthening FSDC's financial and

management capabilities, it is expected that FSDC will increase its effective management of subprojects under SFS II and will increase its ability to leverage additional resources from public and private institutions.

Notwithstanding the above objectives, the grant funds under this amendment will only provide the tools for FSDC to address the significant policy and programmatic issues it will have to resolve in order for it to establish a viable basis for the future. FSDC must determine how it wishes best to use these tools. By the end of this project amendment AID and FSDC will be at an important crossroad that will determine the course of our future relationship. That course in large part will be determined by FSDC's and the GOP's willingness to make the hard decisions called for by the analyses conducted prior to and during the period of this amendment.

B. Project Description

The activities funded under this amendment will be implemented over a one year period commencing with the execution of a contract for a General Consultant and has three major components: Technical Assistance, Training and Commodity Assistance.

Technical Assistance will be provided to help FSDC examine its mandate and policies with a view toward establishing appropriate long term strategies, objectives and organizational arrangements. FSDC's role as an intermediary for linking private sector expertise and markets with farmer groups will be pursued on a limited pilot basis. This will place FSDC more in the role of a broker between farmers and the private sector and limit the

technical input from FSDC considerably for agricultural and enterprise development activities. Work on developing small scale irrigation systems is expected to continue under the project, but FSDC's financial systems and current financial position will be strengthened and serve as a basis for: (1) developing appropriate accounting systems and practices, and (2) restructuring its loan program.

On-the-job skills training will be provided to FSDC central and area office staffs. In order to further strengthen FSDC staff management capabilities, training will be provided in areas such as: (1) improved accounting methodologies; (2) loan portfolio management techniques and project development; and (3) management and monitoring techniques.

To improve management of information and project monitoring, the project anticipates procuring a small number of micro computers for the central and area offices to improve their management information systems and loan maintenance procedures. These three inputs of the project amendment (technical assistance, training and commodities) are discussed in more detail below along with an analysis of expected outputs.

The technical assistance component of the project aims to develop and implement strategies in response to the problems discussed above. The development and implementation of these strategies are planned to include: (1) formulation of improved financial policies and procedures (e.g. loan management, budgetary techniques, accounting, reporting and project monitoring systems and management policies); (2) restructuring of the present

organizational set-up of FSDC; and (3) identification and provision of training and commodity requirements to correspond with the needs of the restructuring. The technical assistance package is expected to include a long term and selected short term expatriate consultants to be supported by local staff. Included in Table III B1 below is an illustrative list of the technical assistance requirements as well as other project inputs.

Improved loan management policies may include such measures as any necessary adjustments of lending rates in subloans to KAISA's, maintenance of sufficient records to provide data on the current status of loan portfolios, specifically on doubtful accounts, and the analysis of investment programs at regular intervals to determine viability of lending activities and to minimize if not completely eliminate activities which cause added financial burden on FSDC. The formulation of improved loan management policies is expected to increase the collection rate and decrease the probability of doubtful accounts.

Improved financial accounting and reporting systems are expected to include the keeping of complete sets of accounting and subsidiary records in the central and field offices to account for all transactions of FSDC, proper valuation of resources, liabilities, revenues and expenses in the financial statements, and consistency in the use of methods of accounting (i.e., cash vs. accrual method). Such improved systems are expected to enhance the reliability of these reports as bases for FSDC's management decisions.

An improved project monitoring system and management policies should include systematic data collection and management for all programs undertaken

by FSDC. Programs will also be regularly assessed to determine their viability. Necessary steps can then be taken to support and strengthen projects with best prospects for success and divest or eliminate projects with poor prospects for success.

On-the-job training of FSDC staff to meet the technical capability requirements called for by the improved organizational set-up of FSDC is also necessary to reach the project objectives. Technical consultants will work directly with FSDC counterpart staff to develop a training plan which consists of seminars, workshops and training courses at FSDC or conducted at local institutions.

To complete the corrective measures package, procurement of commodities is planned to improve both the central office and field operations of FSDC. Procurement will be done under the General Consultant Contract either locally or offshore, depending upon the availability of commodities and cost advantages of using either of the two methods of procurement.

In order to help assure that there is adequate commitment to resolving the difficult problems identified in this paper, a condition precedent to disbursement of further assistance (except for technical assistance, research and training) will require that FSDC provide a plan for interim policy changes satisfactory to AID. This condition will not hamper the procurement or continuation of necessary consultant assistance or training activities, but will prevent further disbursements for irrigation activities until interim decisions are made regarding such issues as: interest rate policies, policy on overdue loans to FSDC, plans regarding the KAISA program, general approach

to consolidating operations, and general commitment to the management and financial improvement program outlined in this paper. Moreover, it is not anticipated that disbursements will resume for upland activities, financial assistance to KAISAs or other activities outside the irrigation, technical assistance and training components unless FSDC and AID agree that such activities are supportable and viable given the necessary consolidation and policy revisions to be undertaken by FSDC.

The benefits resulting from this amendment cannot be stated in financial terms. The amendment, however, should bring substantial indirect benefits to the farmer-beneficiaries of FSDC-implemented projects, since they should be able to realize the expected benefits originally planned under SFS II. These benefits would not be possible without the necessary policy revisions and strengthening of financial and management capabilities of FSDC.

Table III B1 Assistance Requirements

<u>Amendment Objectives</u>	<u>Assistance Input</u>	<u>Quantity</u>	<u>Job Time in Person Days</u>	<u>Estimated Cost</u>	<u>Remarks</u>
I Project supervision and management					
	U.S. based coordinator	1	20	\$ 12,600	
	Local Coordinator	1	90	24,120	
	U.S. Project Manager	1	260	143,000	
	Local Project Manager	1	260	40,300	
II Improving the management of lending operations					
	U.S. Manager	1	30	15,000	
1. Designing system to establish loan balances	Local Sr. Consultant	1	10	1,150	
2. Verifying, confirming and updating of loan receivables (100 percent) and accounts receivable - employees	Local Sr. Accountant	6	660	39,600	6 area offices 373 ISAs per area office
	Local junior account-	12	1,320	52,800	
3. Designing loan record keeping micro computer based system for area offices, including centralized monitoring of loan					
a. Designing the manual system	Local Sr. consultant	1	66	7,590	
	Local Assistant	1	22	800	
b. Computerizing the system, including training of users	Local Sr. programming consultant	1	44	5,060	
	Local EDP consultant	2	33	3,300	
c. Assisting in computer hardware selection	Local Sr. consultant	1	22	2,530	

<u>Amendment Objectives</u>	<u>Assistance Input</u>	<u>Quantity</u>	<u>Job Time in Man Days</u>	<u>Estimated Cost</u>	<u>Remarks</u>
4. Improving lending policies and procedures including a study to determine the feasibility of increasing interest rates	Local Sr. consultant	1	22	2,530	
5. Assisting in the implementation of improved lending policies and procedures thru seminar workshops in area offices (six seminars)	Local Sr. consultant	1	66	7,590	one seminar for each area office
III Improving accounting and management information system	U.S. Manager	1	30	15,000	
	U.S. Manager	1	30	15,000	
1. Designing a computer based accounting system that allows for segment reporting and facilitates report preparation					
a. Designing the manual system	Local Sr. Consultant	1	66	7,590	
	Assistant	1	22	880	
b. Computerizing the system, including user training	Local Sr. Consultant	1	44	5,060	
	EDP Consultant	2	33	3,300	
c. Assisting in computer hardware selection	Local Sr. Consultant	1	22	2,530	
2. Designing a record keeping and financial and operations reporting system for ISA's	Local Sr. Consultant	1	22	2,530	
Conducting a training program to impart the ISA recordkeeping, financial and operations of reporting system to ISA officers and to increase their supervisory and managerial skills	Local Sr. Consultant	1	132	15,180	one seminar for each province - 50 provinces

<u>Amendment Objectives</u>	<u>Assistance Input</u>	<u>Quantity</u>	<u>Job Time in Man Days</u>	<u>Estimated Cost</u>	<u>Remarks</u>
3. Designing a computer based integrated management information system covering financial project, and other non-financial information					
a. Designing the manual system	Local Sr. Consultant	1	66	7,590	
	Assistant	1	22	880	
b. Computerizing the system, including user training	Local Sr. Consultant	1	44	5,010	
	EDP Consultant	2	33	3,300	
4. Designing a budgetary system and implementing it	Local Sr. Consultant	1	66	7,590	
IV Re-evaluating FSDC organization and purpose					
1. Assisting in evaluating policies and strategies	U.S. Rural Development Specialist	1	66	35,000	
2. Evaluating FSDC - KAISA relationship	Local Sr. Consultant	1	44	5,000	
3. Strengthening the organization of FSDC	Local Sr. Consultant	1	66	<u>7,590</u>	
GRAND TOTAL				<u>\$497,000</u> =====	

Estimate of Support Costs

I. US Firm

1. Project Manager

- Air fares include family 4 each DLR 2,280	\$ 9,120
- Housing	20,000
- Education for 2 children (US Equiv. Sch.)	10,000
- Post Diff/Allowances/Misc.	24,000

2. U.S. Short Term Consultants

- Air fares 4 each DLR 2,280	9,120
- Per diem 171 days at DLR 80	13,680
- Other	1,000

II. Philippine Firm

1. Secretary 260 days at DLR 30	7,800
2. Inter-island travel, including air fares, board and lodging	12,280
3. Report Preparation/Copy	2,000
4. Miscellaneous	<u>7,000</u>

TOTAL SUPPORT COSTS \$116,000
=====

ESTIMATE OF COMMODITY ACQUISITION COSTS

<u>System Description</u>	<u>Hardware Description</u>	<u>Quantity</u>	<u>Unit Cost</u>	<u>Total Pesos</u>	<u>Cost DLR</u>
I. Loan recordkeeping micro-computer based system for area offices, including centralized monitoring of loan status	Micro-computer IBM PC or equivalent	6	115,000	P 690,000	\$38,330
II. Computer based accounting system that allows for segment reporting and facilitates report preparation	Super micro	1	300,000	P 300,000	16,670
Sub total for computer hardware				P 990,000	\$55,000
III. Radio communication system	Radio-SSB/NF	5		<u>720,000</u>	<u>40,000</u>
GRAND TOTAL FOR COMMODITIES				<u>P1,710,000</u> =====	<u>\$95,000</u> =====

SUMMARY OF PROFESSIONAL FEES, SUPPORT COSTS AND COMMODITY COSTS

1.	Technical Assistance and Training	\$497,000
2.	Support Costs	116,000
3.	Commodity Costs	95,000
4.	Contingencies	<u>42,000</u>
	TOTAL COSTS	\$750,000 =====

C. Financial and Implementation Plan

The SFS II project was originally funded at \$7,600,000 (\$7,100,000 loan and \$500,000 grant). After the Mission's review of this project, it was determined that \$2,500,000 in loan funds could be deobligated, thus reducing the LOP loan amount to \$4,600,000. Over the life of the project, the Mission expects to seek the replacement of deobligated loan funds with grant resources. With the \$750,000 add-on grant to be obligated under this amendment, the life of project cost of the Small Farmer Systems II Project will total \$5,850,000, composed of \$4,600,000 loan and \$1,250,000 grant funds. The initial obligation of the \$750,000 add-on will be made in FY 85 in the amount of \$320,000 and the balance will be obligated in FY 86. Table III C1 below is an updated financial table which covers the entire Small Farmer Systems II Project, including the proposed amendment.

The activity to be covered by the add-on funding will basically consist of contracting technical services for a General Consultant to develop and implement approaches to solve problems identified in this paper. The consultant is expected to be a joint venture between a U.S. and a local firm. The allocation of the add-on cost among the various project components is illustrated above in Table III B1 but changes may be made depending on recommended actions to be developed by the consultant in conjunction with FSDC management.

Contracting for technical services under an AID direct contract is projected to be accomplished by early CY 1986. Services are expected to run

for one year. Commodities are expected to be procured by the same consultant team that provides technical services and will take place in the latter half of the contract. Training also will be done by the same consultant team, both on-the-job and through seminars and workshops. The USAID Mission anticipates providing necessary support services to the long term contractor and charging costs to the grant.

Since the current project PACD is Sept. 30, 1986 it will be necessary to extend the PACD for the project sufficiently to allow for a one year consultant contract. The extension will be done just prior to execution of the consultant contract so that the necessary time period for the extension will be clear. Before the end of the consultant services, FSDC's progress will be evaluated so that any need for further restructuring the existing project may be determined and requirements for further extensions or additional resources may be evaluated.

TABLE III C1

SUMMARY COST ESTIMATES BY SOURCE OF FUNDING (FINANCIAL PLAN)
U.S. DOLLAR EQUIVALENTS (000 DOLLARS) ^{1/}

<u>PROJECT COMPONENTS</u>	<u>TOTAL COST</u>	<u>AID LOAN</u>			<u>AID GRANT</u>			<u>GOV LC TOTAL</u>
		<u>TOTAL</u>	<u>LC</u>	<u>FX</u>	<u>TOTAL</u>	<u>LC</u>	<u>FX</u>	
Irrigation Development	1,981	1,428	1,428	-	-	-	-	553
Institutional Development	9,429	1,389	1,389	-	-	-	-	8,040
Enterprise Development	1,634	462	462	-	-	-	-	1,172
Upland Development	2,981	100	100	-	-	-	-	2,881
Commodities	369	369	-	369	-	-	-	-
Technical Assistance	1,765	852	-	852	750	400	350	163
Research & Development	160	-	-	-	160	160	-	-
Participant Training	343	-	-	-	250	-	250	93
Evaluation	90	-	-	-	90	-	90	-
Project Administration	627	-	-	-	-	-	-	627
T O T A L	<u>19,379</u>	<u>4,600</u>	<u>3,379</u>	<u>1,221</u>	<u>1,250</u>	<u>560</u>	<u>690</u>	<u>13,529</u>

^{1/} Figures from the original project paper were changed to reflect the \$2,500,000 deobligation under the loan component effective FY 1985 and the incrementally funded \$750,000 additional grant assistance of which \$320,000 is provided under Amendment No. 2 to the Project Agreement.

D. Consistency with GOP and AID Objectives

The growth of the agricultural sector remains a top priority for the GOP. The Updated 5-Year Plan (1983-1987), completed in the wake of the current economic crisis, stresses the key role of agricultural and agro-industry in the country's overall economic progress. SFS II is making a modest contribution to the GOP's objective of accelerated agricultural development. SFS II is also consistent with USAID's CDSS priority of broad-based agricultural growth and local resources management by virtue of its focus on communal organization and local management of irrigation systems and agricultural enterprises. FSDC's new interest in establishing linkages between agro based enterprises and the private business community is consistent with GOP and AID efforts to more actively involve the private sector in development. Accordingly, it is important that FSDC, as the implementing agency for SFS II, develop the necessary institutional capabilities to pursue effective activities and modify or shed activities that are not appropriate to the present situation.

IV. Monitoring and Evaluation Plan

The monitoring phase of this project will be carried out under established arrangements between USAID and FSDC personnel. USAID will devote at least 30 percent of one project officer's time to monitoring this project, plus necessary financial analysis and engineering support. Under the provision of this amendment which will help FSDC in upgrading its financial and management capabilities, FSDC will furnish A.I.D. periodic reports on

progress it has made toward resolving identified problems. Through on-site monitoring, A.I.D. financial analysts will review the books and records of FSDC as needed. USAID will also meet with both FSDC and the General Consultant on an arranged basis to assess progress and to discuss all problems encountered in implementation of the project.

An evaluation of the project is planned for late CY 1986. The program will include the following:

1. Evaluation of progress toward attainment of project objectives.
2. Assessment of progress made in resolving financial and management constraints, and instituting necessary financial and management policy changes recommended by the General Contractor.
3. Identification and evaluation of any other problem areas or constraints which may prevent or have prevented such attainment.
4. Assessment of how such information may be used to help overcome such problems.
5. Evaluation, to the degree possible, of the overall development impact of the project.

V. Conditions Precedent and Covenants

The following are conditions and covenants A.I.D. intends to negotiate in the Project Agreement Amendment. Their substance is not expected to change during negotiation of the Amendment.

A. Conditions Precedent to Disbursement of Funds

Prior to any further disbursement of the Assistance for capital improvements or projects after the effectiveness of Amendment No. 2 to the

Agreement, or to the issuance of documentation pursuant to which such disbursement will be made, whether such Assistance is made available under the original Agreement or under Amendment No. 2, the Cooperating Country will cause the Farm Systems Development Corporation (FSDC) to adopt an interim plan, in form and substance satisfactory to A.I.D., implementing financial and management improvements for strengthening the capabilities of FSDC to meet the objectives of the Project.

B. Special Covenant

The Cooperating Country agrees to implement policies acceptable to A.I.D. designed to ensure the financial soundness of FSDC and agrees that FSDC will adopt and implement appropriate financial and management policies, in each case in accordance with a plan acceptable to A.I.D. and based upon due consideration of the recommendations to be made by a general consultant to be financed under the Assistance.

VI. Gray Amendment - Early Alert

The Project Committee has given full consideration to the potential involvement of small and/or economically and socially disadvantaged enterprises and has determined that the Technical Assistance required under this amendment be provided through open competition with special consideration given to firms submitting proposals which utilize the resources of 8-A firms to the maximum extent.



REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

NEDA sa Pasig, Amber Avenue
Pasig, Metro Manila

Annex A

Cable Address: NEDAPHIL
P.O. Box 410, Greenhills
Tels. 673-80-31 to 80

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USAID/ID&R 28 August 1985

Mr. Frederick W. Schieck
Director, USAID Mission
Manila

Dear Mr. Schieck,

Subject: Small Farmer Systems II
Project No. 492-0334

We are pleased to request for additional grant assistance in the amount of US\$750,000 for the above-cited project being implemented by the Farm Systems Development Corporation.

The proposed additional grant assistance will be used to strengthen the institutional capabilities of FSDC in financial and project management. Specifically, the additional resources will be used to finance the cost of technical assistance, training and procurement of commodities.

This Office would highly appreciate if the appropriate amendment to the Project Loan and Grant Agreement reflecting the aforementioned additional grant assistance could be prepared for our mutual consideration.

Sincerely yours,

Vicente B. Valdepenas, Jr.
VICENTE B. VALDEPENAS, JR.
Minister of Economic Planning &
Director-General

DIV	ACTING
OD	<input checked="" type="checkbox"/>
E	<input type="checkbox"/>
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OPHN	<input type="checkbox"/>
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RIG/II	<input type="checkbox"/>
AR	<input type="checkbox"/>
DATE	
9-12-85	

ACTION TAKEN	
MAN	Other
Type	No
Date	In file

ACT: **AID-3** INFO: AMB DC: ECON ADB CBRON/10/93

Annex B

VZCZCML0434
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BT
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LOC: 54 071
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CN: 04311
CHRG: AID
DIST: AID

ACTION COPY

Action Taken: CN imp updated/NAN
No action necessary: NAN/except include request - PP amendment
Date: 6/4/85 Initial: C. [Signature]

AIDAC

P.O. 12356: N/A

TAGS:

SUBJECT: PHILIPPINES - SMALL FARMERS SYSTEM II, PROJECT PAPER (PP) SUPPLEMENT; PROJECT 492-0334

REFERENCE: MANILA 11653

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USAID/C&R

1. ON MAY 3, 1995, THE PROJECT COMMITTEE (PC) REVIEWED THE ABBREVIATED PID IN REPTEL FOR DOLS DOLS 500,000 GRANT ADD-ON TO THE DOLS 7.6 MILLION SMALL FARMERS SYSTEM II PROJECT. GIVEN THE SMALL AMOUNT OF FUNDING INVOLVED AND THE ABSENCE OF POLICY ISSUES, THE PC RECOMMENDED APPROVAL WITHOUT AN APAC MEETING.

2. AA/ANE ACCEPTED THE PC'S RECOMMENDATION AND APPROVED THE PROPOSED PROJECT AMENDMENT. MISSION IS AUTHORIZED TO PROCEED WITH THE PREPARATION AND APPROVAL OF THE PP SUPPLEMENT, TAKING INTO CONSIDERATION GUIDANCE PROVIDED BELOW.

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DATE		5-28-85

3. PROJECT OBJECTIVES: PP SUPPLEMENT SHOULD CLEARLY DEFINE THE REVISED OBJECTIVES OF THE PROJECT. WE UNDERSTAND REVISED OBJECTIVES ARE TO DEVELOP THE INSTITUTIONAL CAPABILITY OF THE FARM SYSTEMS DEVELOPMENT CORPORATION (FDSC) IN THE AREAS OF MANAGEMENT CONTROL

(I.E. FINANCIAL SYSTEMS AND PROJECT IDENTIFICATION AND MONITORING) TO MAKE FDSC BANKABLE FROM AN INTERNATIONAL DEVELOPMENT POINT OF VIEW. PP SUPPLEMENT SHOULD INCLUDE A DISCUSSION OF THE REORIENTATION OF THE PROJECT BY PASSING OUT FROM VARIED ACTIVITIES (E.G. GASIFIERS) TO CONCENTRATION ON IRRIGATION SYSTEMS.

4. AMOUNT OF ADD-ON: PP SUPPLEMENT MAY RESULT IN AMOUNT OF ADD-ON EXCEEDING THE DOLLARS 500,000 IN ORDER TO PROVIDE ADEQUATE TA AND TRAINING TO ADDRESS THE MANAGEMENT REFORMS CONTEMPLATED. IF FINAL FIGURE IS ABOVE THE DOLS 500,000 AMOUNT REVIEWED, MISSION SHOULD ADVISE AID/W BEFORE APPROVING PP SUPPLEMENT.

5. BUDGET BREAKDOWN: REPTEL MATERIAL DOES NOT INCLUDE BUDGET BREAKDOWN OF THE DOLLARS 500,000 ADD-ON. PC EXPRESSED CONCERN OVER POSSIBLY COMMODITY PORTION MAY OVERSHADOW TA AND TRAINING PORTIONS. FINAL BUDGET

UNCLASSIFIED

STATE 153119

SHOULD STRIKE BALANCE BETWEEN THE TECHNICAL ASSISTANCE, TRAINING AND COMMODITY COMPONENTS.

6. TA MIX: GIVEN THE RELATIVELY MODEST AMOUNT OF FUNDS THAT WILL BE ALLOCATED FOR TA, AMENDED PROJECT SHOULD HAVE PROPER MIX OF EXPATRIATE AND LOCAL TA TO OPTIMIZE USE OF LIMITED FUNDS AVAILABLE.

7. PROSPECTS OF SUCCESS: PP SUPPLEMENT SHOULD INCLUDE ANALYSIS SHOWING THAT THE MODIFIED PROJECT HAS PROSPECTS FOR SUCCESS BASED ON (1) DYNAMIC LEADERSHIP OF PDSC, THE IMPLEMENTING AGENCY; (2) EXPERIENCES LEARNED SO FAR (F.G. CORROSIVE GASIFIER FUEL, LACK OF INCENTIVE TO COLLECT LOW INTEREST LOANS); (3) SHIFT IN PROJECT PROMOTION FROM GOVERNMENTAL ORGANIZATION (WHICH USES ENTREPRENEUR APPROACH) TO SEMI OR AUTONOMOUS PDSC (USING BUSINESS MANAGEMENT APPROACH); (4) ADVANTAGE OF PDSC'S GOOD OUTREACH (ITS MANDATE, CREDIBILITY AND UNIQUENESS); (5) FOCUS OF PROJECT BEING CHANGED FROM OUTPUTS TO PROCESS; AND (6) FOCUS OF PROJECT BEING NARROWED FROM MANY ACTIVITIES TO THOSE RELATED TO IRRIGATION.

8. TENTATIVE FY 85 OBLIGATION IN FY 85 IS DOLLARS 319,604 USING FY 84 DEOBLIGATED FUNDS WHICH MUST BE DONE BEFORE JULY 1, 1985; BALANCE TO BE OBLIGATED IN FY 86 FROM DA ACCOUNT.

9. SINCE ACTIVITY IS SUBSTANTIALLY DIFFERENT FROM THAT PREVIOUSLY JUSTIFIED TO CONGRESS AND LIFE OF PROJECT GRANT FUNDING BEING INCREASED, ANE/ASIA/PD WILL NEED

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AMENDMENT NO. 1
TO
PROJECT AUTHORIZATION

PHILIPPINES

Small Farmer Systems II
Project No. 492-0334

1. The Small Farmers Systems II Project (the "Project") for the Republic of the Philippines (the "Cooperating Country") was authorized on July 31, 1981. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, and in accordance with my authority as redelegated by STATE 162401 dated May 29, 1985, I hereby amend the Project Authorization for the Project as follows:

2. The level of planned grant obligations is increased by \$750,000 from \$500,000 to \$1,250,000. The amount of such increase shall be available for obligation over a twelve month period from the date of this Amendment to the Project Authorization, subject to the availability of funds in accordance with A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. In addition to the uses previously authorized, funds authorized for this project, as amended hereby, will be used for contracting technical services to upgrade the financial and management system of the host government institution, to train host country personnel, and to procure commodities.

3. The authorization cited above remains in force except as amended herein.

Signature: *Frederick W. Schieck*
Frederick W. Schieck
Director
USAID/Philippines

Sept. 23, 1985
Date

CLEARANCES
CO:LEckersley
PO:WTOliver
ORAD:DClark
OCD:JATennant
RLA:BMMiller
OD:JSBlackton

Initials
RE Rhoda
10/1
5/11
Q.

Date
9/23/85
9-23-85
9-23-85
09-23-85
84-23-85

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)? By CN which expired 6/26/85

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? Yes
Yes

35

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? N/A
4. FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973, or the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.) Yes
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? N/A
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No

7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
- Amendment provides funding to enable the Farming Systems Development Corporation to upgrade its financial and management capabilities, therefore it will both foster private initiative and improve the technical efficiency of agriculture.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- Since some commodities and services will be purchased from the U.S., U.S. private enterprise will be encouraged.
9. FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
- Counterpart contributions form an important part of the overall project.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- No

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes
12. FY 1985 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? No
13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16. Does the project or program taken into consideration the problem of the destruction of tropical forests? N/A for Amendment
Yes for project
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A

15. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

No

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote
- a. Beneficiaries of the project are poor rural farmers. As a result of the project, they will manage, operate, and maintain their own irrigation systems. They will be trained in farm system technologies and through cooperation will be better able to influence their markets and direct their lives.
- b. Farmer organizations being formed are cooperatives which will attempt to increase food production.
- c. Farmer organizations will provide some of the necessary labor to construct the irrigation systems.
- d. Implementing agency will conduct training for farm families, with special attention to requirements of female family members.
- e. N/A

the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?

- b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? Yes
- c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Yes
- d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)? Yes.
- e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project for more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country No

"relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character."

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? Yes

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Amendment will assist FSDC develop the necessary institutional capabilities to pursue effective local management of irrigation systems and agricultural enterprises.

2. Development Assistance Project
Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

a. The situation is being monitored closely by the IMF, and the Philippines continues to be considered credit-worthy.

b. N/A

3. Economic Support Fund Project
Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

c. FAA Sec. 534. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

SC(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?? Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Yes

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A
5. FAA Sec. 604(q). Will construction or engineering services be procured from firms of countries which are direct aid recipients and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? N/A
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? No

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes

9. 1965 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Any direct U.S. Government procurement contract will so provide.

B. Construction

N/A for Amendment

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)?

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Yes
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes
4. Will arrangements preclude use of financing:
 - a. FAA Sec. 104(f); FY 1985 Continuing Resolution Sec. 527. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice Yes

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- abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortion or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?
- b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes
- c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes
- d. FAA Sec. 662. For CIA activities? Yes
- e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes
- f. FY 1985 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes

- g. FY 1985 Continuing Resolution, Sec. 505.
To pay U.N. assessments, arrearages or dues? Yes
- h. FY 1985 Continuing Resolution, Sec. 506.
To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes
- i. FY 1985 Continuing Resolution, Sec. 510.
To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes
- j. FY 1985 Continuing Resolution, Sec. 511.
Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Assistance will not be provided for such purposes.
- k. FY 1985 Continuing Resolution, Sec. 516.
To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes