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**PROJECT PAPER
(PP)**

**ACCELERATED
AGRICULTURAL
PRODUCTION**

(492 - 0385)

USAID/MANILA

AUGUST 1986

ACCELERATED AGRICULTURAL PRODUCTION PROJECT
(492-0385)

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PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

Philippines

3. PROJECT NUMBER

492-0385

4. BUREAU/OFFICE

ASIA/NEAR EAST

04

5. PROJECT TITLE (maximum 40 characters)

Accelerated Agricultural Production

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
 1 2 3 1 9 1

7. ESTIMATED DATE OF OBLIGATION

(Under "B:" below, enter 1, 2, 3, or 4)

A. Initial FY 8 6

B. Quarter 4

C. Final FY 9 0

8. COSTS (\$000 OR EQUIVALENT \$1 = ₱20)

A. FUNDING SOURCE	FIRST FY 86			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(2,840)	(10,976)	(13,816)	(3,370)	(16,630)	(20,000)
(Loan)	(-)	(-)	(-)	(-)	(-)	(-)
Other U.S.						
1. Host Country		1,451	1,451		7,025	7,025
2. Other Donor(s)						
TOTALS	2,840	12,427	15,267	3,370	23,655	27,025

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) ARDA	259	241				13,816	-	20,000	-
(2)									
(3)									
(4)									
TOTALS						13,816	-	20,000	-

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

242 140 050

11. SECONDARY PURPOSE CODE

289

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

A. Code
 B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To increase profitability and productivity of agricultural production by:
 (i) improving agricultural services to farmers, (ii) identifying and supporting means of creating more efficient markets for agricultural inputs and products, and (iii) improving the basis of agricultural policy and program formulation

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 0 1 8 8 0 1 8 9 0 5 9 1

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.)

17. APPROVE BY

Signature

JOHN S. BLACKTON

Title

Acting Director
 USAID/Philippines

Date Signed

MM DD YY
 0 8 3 0 8 6

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

MM DD YY

PROJECT AUTHORIZATION

Name of Country: Philippines Name of Project: Accelerated Agricultural
Production

Number of Project: 492-0385

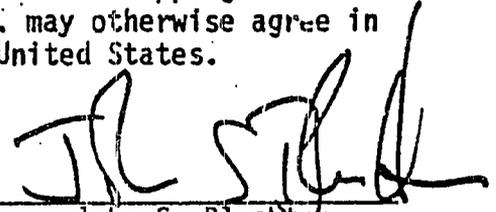
1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended (the "FAA"), and in accordance with my authority as conveyed in Redelegation of Authority No. 133.1 dated May 24, 1985, I hereby authorize the Accelerated Agricultural Production Project (the "Project") for the Republic of the Philippines (the "Cooperating Country") involving planned obligations of not to exceed \$20,000,000 in grant funds over a four year period from the date of initial authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is five years and four months from the date of initial obligation.
2. The Project will provide resources to Philippine public and private sector entities for activities, including training, technical assistance, research and analysis, commodities and operating costs for (i) improving agricultural services to farmers, (ii) identifying and supporting means of creating more efficient markets for agricultural inputs and products and (iii) improving the basis of agricultural policy and program formulation.
3. The Project Agreement, which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

Source and Origin of Commodities, Nationality of Services -

Commodities financed by A.I.D. under the project shall have their source and origin in the Cooperating Country or in the United States except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the

Cooperating Country or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

Signature:



John S. Blackton
Acting Director
USAID/Philippines

Date:

30 Aug 86

Clearances:

	<u>Initial</u>	<u>Date</u>
OD/PE:Paul R. Deuster	<u>PRD</u>	<u>8/29/86</u>
OCD:Keith E. Brown	<u>KEB</u>	<u>8/29/86</u>
ORAD:James R. Brady	<u>JRB</u>	<u>8-29-86</u>
OPHN:William R. Johnson	<u>WRJ</u>	<u>8/29/86</u>
OFFPVC:Bryant George	<u>BG</u>	<u>8/29/86</u>
PRO: Dominic D'Antonio	<u>DDA</u>	<u>6/29/86</u>
CO: Bruce L. Eckersley	<u>BL</u>	<u>8/30/86</u>
RLA: Brian M. Miller	<u>BMM</u>	<u>8/30/86</u>
OD: William T. Oliver	<u>WTO</u>	<u>8/30/86</u>

A C R O N Y M S

AA	- Advice of Allotment
AAP	- Accelerated Agricultural Production
AASOEM	- Assistant Administrator for Systems Operation and Equipment Management
ADB	- Asian Development Bank
AID	- Agency for International Development
BAS	- Bureau of Agricultural Statistics
BAEcon	- Bureau of Agricultural Economics
BOI	- Board of Investments
BTR	- Bureau of Treasury
CB	- Central Bank of the Philippines
CDC	- Cash Disbursement Ceiling
CDEM	- College of Development Economics and Management
CDSS	- Country Development Strategy Statement
CPDS	- Center for Policy and Development Studies
CRC	- Center for Research and Communications
DG	- Development Grant
DL	- Development Loan
ESF	- Economic Support Funds
FPA	- Fertilizer and Pesticide Authority
GDP	- Gross Domestic Product
GOP	- Government of the Philippines
Ha.	- Hectare
IBRD	- International Bank for Reconstruction and Development (World Bank)
IMF	- International Monetary Fund
ISNAR	- International Service for National Agricultural Research
MAF	- Ministry of Agriculture and Food
M.T.	- Metric Tonnes (1,000 kg.)
NEDA	- National Economic and Development Authority
NFA	- National Food Authority
NFAC	- National Food and Agricultural Council
NGO	- Non-Governmental Organization
NIA	- National Irrigation Administration
NIS	- National Irrigation System
NSTA	- National Science and Technology Authority
OBM	- Office of Budget and Management
O&M	- Operations and Maintenance
OYB	- Operational Year Budget
PAD	- Policy Analysis Division (MAF)
PCARRD	- Philippine Council for Agriculture and Resources Research and Development
PCC	- Philippine Cotton Corporation
PDC	- Philippine Dairy Corporation
PHILPHOS	- Philippine Phosphate Fertilizer Corporation
PIDS	- Philippine Institute for Development Studies
PILs	- Project Implementation Letters

PIOs	- Project Implementation Orders
PITC	- Philipping International Trading Corporation
PL-480	- Public Law - 480
PNB	- Philippine National Bank
PPI	- Planters Products Inc.
PVO	- Private Voluntary Organization
RIARS	- Regional Integrated Agricultural Research System
SDR	- Special Drawing Rights
UP Diliman	- University of the Philippines at Diliman, Quezon City
UPLB	- University of the Philippines at Los Banos, Laguna
USDA	- United States Department of Agriculture
USG	- United States Government

I. Project Setting

A. Narrative Summary. The new government of President Corazon Aquino faces enormous tasks in rebuilding a democratic political system and stimulating economic progress. There are very high public expectations that the new government will achieve quick results in solving severe national economic problems. A Constitutional Commission is attempting to draw up a new framework of government; local and national elections will be held in the near future; avenues of reconciliation with active insurgents are being opened. The new Administration inherited a governmental structure that was overly involved in the economy through regulation, is saddled with inefficient public corporations that are a heavy drain on Government of the Philippines (GOP) budgetary resources, has bankrupt public financial institutions with acquired assets, many of which are nonproductive and require massive budget support. The present economic situation is characterized by a severe economic and financial crisis resulting in high unemployment and underemployment, depressed output levels, negative GDP and investment rates, decreased exports and imports, and high debt servicing requirements (see Annex F.1 for detailed analysis of the macroeconomic situation).

As an immediate response to the new government, the United States Government (USG) has provided \$235 million for budgetary support through its ESF and PL-480 programs. There is a strong convergence of views between the GOP and USG in terms of basic policy orientation and strategies for dealing with the current economic problems (see Annex F.3 concerning conformity of GOP and AID policies and strategies). In response to the new administration's economic recovery program, which features agriculture as the lead sector, and in consonance with the Short-Term Recovery Plan for the Rural Sector, USAID/Manila together with the Ministry of Agriculture and Food (MAF) and the National Irrigation Administration (NIA) have designed the Accelerated Agricultural Production (AAP) Project to help restore sustained growth in agricultural production as a stimulus to rural and overall economic recovery. To achieve this goal, the AAP Project will strengthen the economic, technical and market conditions necessary for growth in the agricultural sector through financial and technical assistance to: (1) improve agricultural services to farmers and assist in the rehabilitation of agricultural institutions; (2) expand the role of and investment by the private sector in the marketing and processing of agricultural inputs and products; and (3) improve public sector policy and program formulation to create a policy environment conducive to agricultural growth.

Given the state of policy, institutional and programmatic flux in the new administration, the AAP Project will address a series of critical sector problem areas. In those areas where clear delineation of focus has been established, USAID will initiate immediate funding. In other areas, in which for policy or programmatic reasons further analysis is required, project funds will be used to establish the basic groundwork for future investments.

B. Macroeconomic and Agricultural Setting. The Philippines is in the midst of a severe recession. Real per capita GDP in 1985 was down 10% from 1983 and is at the level of 10 years ago. Widespread unemployment and reduced incomes have reduced the ability of the majority of consumers to buy food and other essentials. This setback in Philippine economic development can be attributed in large measure to poor economic policies and to depressed world prices for major exports. This in turn has fostered greater political unrest and instability particularly in the rural areas (see Annex F.2 for detailed analysis of the agricultural sector).

The Philippines is a predominantly rural society. An estimated 70 percent of the people, most of whom depend on agriculture for a livelihood, live in the rural areas. The decline in world prices of sugar, rice and coconuts; excessive and ineffective government interventions into markets; and other policy measures biased against agriculture have had a devastating effect on agricultural productivity and rural welfare. The recovery of the Philippine economy will depend on accelerating agricultural growth and increasing rural incomes. The current Administration has given first priority to agricultural and rural development in the national recovery program. The AAP Project will provide technical and financial support to the GOP for achieving this objective.

What are the prospects for agricultural growth in the Philippines? The rapid growth in production and productivity in the Philippines was supported by technological innovation particularly in rice and by expanding markets for traditional exports, coconuts and sugar. Future progress in agricultural development will depend on further advances in basic grain technology and finding new sources of output growth. With steady growth in population and rising incomes, domestic demand is likely to grow at 3 to 4 percent annually for foodgrains and even more rapidly for feedgrains, livestock, and fish. Given the instability in world export markets, special attention must be devoted to the identification, development, and expansion of viable export markets for agricultural products.

C. Policy Changes under the New Administration. As a first step to strengthening agricultural development, the GOP is taking measures to create an environment which will encourage private sector investment in agricultural production and marketing. This has required changing past policies and institutional arrangements, a reduction of the role of government in marketing and market regulation, and a further decentralization of government operations.

These policy and program changes are expected to correct prior strong biases against agriculture. Sector growth is to be promoted through a focus on rural infrastructure, free and more competitive input and commodity markets, support of farm prices for basic grains, a flexible exchange rate policy, reduction of agricultural export taxes, reduction of transactions costs of credit delivery to farmers, and more comprehensive and effective local agricultural support services.

Despite its relatively short tenure, the new Government has made progress in lifting Government controls on the market and on trade restrictions, and has taken measures to reduce taxes on major inputs and commodities. For example, progress has been achieved in dismantling government supported monopolies in sugar, coconut and meat products, selected food and feed grains, and in the fertilizer industry.

Additional policy and institutional improvements have been incorporated into the self-help activities covered under PL-480, Title I agreements. These include: (1) deregulation of the price of milled rice; (2) deregulation of the importation of wheat and distribution of flour; and (3) ensuring unrestricted rights of all parties to importation and distribution of fertilizer. Changes are also being made in the operations of the agency responsible for grains pricing, procurement and distribution, the National Food Authority (NFA). Specifically, the NFA will announce buying and selling prices of paddy rice in advance of each cropping season which it will support through a price stabilization program and it will divest all its non-grain stabilization and trading activities.

While pricing and marketing interventions are critical factors in determining profitability and hence investment incentives in agriculture, lack of access to essential productive resources and technologies is also a critical constraint to investment in agriculture and expansion in production. This requires a continuous flow of both technical and institutional innovations that allow farmers and agribusinesses to obtain the highest sustainable output from the resources available to them.

The innovations and access to the resources necessary for increasing productivity require more effective and responsive public and private institutions. Institutions providing public goods such as irrigation, agricultural research and public policy analyses have tended to be under-financed. But, they are critical to sustaining and increasing agricultural productivity.

In summary, many in the public and private sectors recognize and support the need for widespread policy and institutional reforms in the agriculture and food sectors. It is also recognized that the process will be complex, difficult, long term and influenced by political factors. The AAP Project is viewed as a significant vehicle for supporting continued reforms which will increase the productivity and income of poor rural families.

II. Project Description

A. Problems Addressed. An acceleration of agricultural production is possible if the combination of the fundamental policy changes proposed, improved infrastructural and support services for farmers, and the establishment of efficient markets for agricultural commodities and inputs are realized. The joint goals of the GOP and USG are to address

the most pressing problems:

- Poor agricultural services for farmers, in terms of adequate production infrastructure (irrigation), research focused on farmers' needs and effective technologies delivered to farmers for use (research and extension), and an institutional base that can respond to farmers' needs at a local level (decentralized and improved management).
- Weak and inefficient markets for agricultural inputs and commodities, including fertilizer and pesticides, lack of market information, unstable and uncertain basic grain markets, governmental interference in major commodity markets, weak agricultural export demand and low commodity prices for major sources of foreign exchange, and lack of investment facilities for agricultural lending.
- Lack of well-defined agricultural sector policies, plans and programs, as new leaders in key agricultural agencies establish new policy thrusts, establish means of implementing policies, reorient investment plans and create new programs to stimulate the agricultural sector.

B. Project Goal. The goal of the Accelerated Agricultural Production Project is to restore and accelerate agricultural growth and increase rural investments, incomes and employment.

C. Project Purpose. The purpose of the AAP Project is to increase the profitability and productivity of agricultural production. In order to achieve this purpose, a multi-faceted project is proposed which will support the following areas:

- Developing more efficient, effective and decentralized agricultural support services for farmers through increasing availability of technology, irrigation infrastructure, applied research and outreach services;
- Creating more efficient markets for agricultural inputs and products through an increased private sector role and investment in agribusiness and marketing (e.g., fertilizer, seeds, market information, private investment in marketing and processing facilities).
- Improving agricultural sector policy and program formulation through the development and implementation of policies more conducive to private sector growth (e.g., upgrading information and statistical bases, economic analysis capacities, and program planning and management systems at the policy making level).

D. Description of Activities. The following summaries of the activities included under the AAP Project indicate the specific problem, subproject activities, institutional involvement, required inputs, and the expected

outputs and expected results from AID's investments to contribute toward meeting the stated purposes and project goal.

1. Improving Agricultural Services to Farmers

Lack of access to essential productive resources and technologies is a critical constraint to investment in agriculture and expansion in production. Maximum agricultural productivity in rural areas depends on delivery of adequate and reliable water supply and access to other modern technology. Irrigation, agricultural research and outreach are areas which have tended to be under-financed and poorly managed, yet are critical to sustaining an increase in agricultural output and productivity.

a. Irrigation

Background and Problem Statement: Maximizing agricultural productivity in rural areas depends on delivery of adequate and reliable water supply and access to other modern technology. Timely and adequate provision of water allows for more efficient and effective use of modern varieties and fertilizer and increased cropping intensity. Philippine communal and national irrigation systems, while performing better than most systems in Southeast Asia, operate well below their potential. The primary reason for this mediocre performance is poor operations and maintenance (O&M), although in some systems there are also design defects. Poor O&M and resulting degradation of irrigation facilities reduce water delivery to farmers in the overall system. As a result, farmers have been reluctant to pay irrigation fees. Low collections reduce O&M funding, the lack of which undermines water delivery efficiency of the system leading to still greater frustration and lower repayment by farmers.

Subproject Activities: The Irrigation Service Program is designed to break this declining cycle by improving reliability of water delivery at the farm level. It will do so by strengthening the capacity of irrigation associations to manage water delivery at the local level, improving the support services National Irrigation Administration (NIA) provides to water users, selectively repairing irrigation structures, and enabling NIA and user groups to develop the mechanisms for financing those services through self-sustaining O & M programs.

There are two groups of systems to be addressed: the large national systems and the smaller communal systems. In National Irrigation Systems (NIS), the program will cover 60,000 hectares (approximately 18 NIS), benefitting a total of 58,000 farm families by improving the reliability of water delivery. This will be achieved by organizing farmers in viable water user organizations which are responsible for efficient water management; by strengthening those organizations through training; and by upgrading physical infrastructure for water distribution. In Communal Irrigation Systems (CIS), the program will cover 77,000 hectares (approximately 380 CIS), benefitting a total of 61,000 farm families. The program will also strengthen existing Irrigation Associations,

provide training in improved management of irrigation systems, and finance minor rehabilitation of physical infrastructure.

Support by NIA for water user associations in both national and communal systems will be provided by strengthening the associations' capability to deliver proper irrigation services, improving existing training programs and materials, and by increasing the cadre of organizers. There will also be a system management monitoring element for recording results of these efforts. This is designed to develop techniques and methodologies for joint management by NIA and the Irrigation Associations of large National Irrigation Systems. This will provide information to help institutionalize the process of training farmers and NIA staff to better manage the systems.

The program will focus on 3 Regions (Western Visayas, Northern Mindanao and either Bicol or Ilocos), to develop the models for achieving a self-supporting cycle of improved irrigation services to farmers, higher agricultural productivity, and increased water users revenue for the Provincial and Regional offices of NIA. These regions have been identified as satisfying a combination of conditions favorable to this service oriented program.

b. Agricultural Research and Outreach

Background and Problem Statement: Research and outreach activities are difficult to effectively carry out in the Philippines due to a wide range of soil types, climatic variation, cropping patterns and levels of infrastructure. Rice, corn, coconut, and sugar are the dominant crops, but many other crops, livestock and fisheries enterprises are important to the agricultural economy. An extensive network of the MAF Regional Integrated Agricultural Research System (RIARS) has been established. In addition, there are numerous agricultural colleges and universities throughout the country with varying degrees of expertise in research and outreach. Some of these institutions are staffed by people with good formal training, but often with too few people and too little funding to constitute the critical mass needed to solve complex problems. The large number of different facilities, limited resources and inadequate systems of determining priorities have resulted in relatively low increases in productivity. Philippine research/extension is grossly underfunded, even by the standards of other Asian developing countries. A recent report by Pray and Ruttan (1985) indicates that current government research expenditures are 0.16 percent of GDP which is only about 50 percent of the level in several other Asian countries, namely India, Indonesia, Thailand, Pakistan, and Bangladesh. Furthermore, due to budget constraints in recent years, the GOP has been disinvesting in the research/extension systems. Major financial support is needed as are selected reforms to get the system back on track.

An elaborate research coordination and prioritization mechanism has been put into place during past years, but there still are major problems in

concentrating resources on key problems. For example, various minor crops have been given equal priority with rice and corn, so the operational impact has been disappointing. Moreover, the present system for compensating scientists seems to encourage marginal participation in many studies without sufficient reward for quality and completion. The system of establishing research priorities needs to be reviewed to ensure that higher priority is given to research on commodities which contribute most to total agricultural output. The problems confronting the research and extension outreach systems of the Philippines and recommendations for improvement of the institutional structure are discussed at length in the Agenda for Action for the Philippine Rural Sector section on Research, Extension, and Delivery of Government Services to Agriculture.

Subproject Activities: The Project intends to finance high-priority agricultural research and outreach activities to farmers related to that research. Research and outreach activities to be supported under the Project will be mutually agreed upon by MAF and A.I.D. on the basis of a five-year national agricultural research and outreach plan concurred in by all GOP agencies that will be involved in implementing the plan. Given the scope of the problems cited above, the AAP Project cannot be expected to make a major impact on the total national research and extension network. However, it can perhaps be effective in assisting the GOP to develop research and outreach strategies, priorities and policies which impact more effectively on the farmer. USAID intends to conduct an intensive dialogue with the MAF and other agencies on establishing these research and outreach priorities strategies and policies.

Major project funding will be conditional upon the MAF and related agencies establishing a national research agenda with a rank ordering of priorities by crops and strategies. The Project will also focus on achieving better farm level distribution of research findings and technical information through more effective cooperation among regional and local research and outreach organizations. USAID funding will be used to support research on a few critical commodities and the key research and extension outreach institutions involved with these commodities. These actions will accelerate the movement of applicable research results and technologies to farmers using the combined resources of the RIARS, local universities, MAF field staff and local community organizations.

The AAP Project will initially assist in the definition of policies, priorities and strategies, the elaboration of the research agenda, the resolution of problems associated with the institutional framework, and design the detailed subproject activity for the outyears. Financing will be made available for the design work and various technical consultancies attendant to the design of the research and extension outreach subproject. When the Mission and the MAF agree that the policies, priorities, strategies and subproject design are satisfactory, the AAP Project will finance a research and outreach subproject. The detailed budget for the research and outreach subproject will be presented in an amendment to this project paper and support for these activities will be provided through incremental funding.

c. Improved Management Services of MAF

Background and Problem Statement: The Ministry of Agriculture and Food (MAF) is the principal agency concerned with implementing the agricultural reform program of the national government, including the supporting actions to be taken under this Project. However, the new MAF senior leadership recognizes that it must overcome the following kinds of inherited problems if the GOP is to have a significant impact in the rural areas: lack of a focused set of goals and priorities which inspire staff commitment at all levels of MAF; overcentralized operations and management services; and lack of staff with appropriate implementation experience at the national, regional, provincial and local levels.

Subproject Activities: This Project will provide support to MAF and related implementing organizations to strengthen their management systems and improve the leadership skills of their administrators and supervisors, including efforts to develop strong implementation systems for this Project. The MAF has already initiated actions to decentralize operations, including the establishment of a new Deputy Minister for Mindanao, and improve linkages between MAF units and its clients. The MAF will use support provided under this Project to focus initially on the following objectives:

- (1) Completion of a general analysis of the organizational structure, mission statements, staffing, and internal processes to see how these match with the current national program priorities of the MAF;
- (2) Improvement of systems for two-way communication on implementation problems between (a) headquarters and field, (b) between managers and staff at all levels and (c) between managers and clients and communities;
- (3) Development of performance standards, objectives, and training programs directed toward improvement of MAF planning and problem-solving capabilities at all levels;
- (4) Development of systems for objectively monitoring MAF progress on priority programs and for generating recommendations to senior managers for improving operations; and
- (5) Development of an action plan to provide for systematic upgrading of key managers over time (e.g., through assignments, training, self-improvement efforts).

If these objectives are achieved, managers and staff at all levels of MAF should have (a) an increased understanding of and commitment to current GOP rural development priorities and (b) better skills for translating policies into effective action programs which impact positively on rural families.

2. Market Development

While the government plays an important role in infrastructure development and maintenance and can provide useful services to farmers in the area of technology, it has been repeatedly demonstrated that the private sector is a much more efficient market agent. In the Philippines over the past decades, the government played an increasingly interventionist role in marketing functions, usually justified by short term problems in price and income stability. These interventions led to the pervasive regulation of the agricultural sector and government's direct involvement, frequently as a monopoly, in the marketing of major agricultural commodities.

Under the AAP Project, the USAID will assist the new government and the private sector to:

- (a) Privatize government production and marketing functions and divest government held agribusiness assets;
- (b) Finance a comprehensive study of the fertilizer sector that identifies constraints and strategies for orderly development and the roles the private sector and the Government can play in stimulating fertilizer use;
- (c) Provide technical advice on alternative methods to stabilize rice and corn prices;
- (d) Establish timely and effective market information services;
- (e) Assist in crop diversification efforts for the domestic and foreign markets; and
- (f) Address the feasibility of a private financing/investment facility.

a. Privatization

Background and Problem Statement: Over the past decade, government intervention in the agricultural economy has broadened to include control, ownership and operation of a large number of public and parastatal agricultural institutions. The poor performance of these institutions has caused a heavy financial burden. Government expenditures for government-owned corporations account for over 60% of the 1986 \$2.0 billion budget deficit. These expenditures accounted for 2.6% of GNP in 1985. In addition, governmental competition with private sector has reduced private investment incentives essential to increasing agricultural productivity.

The new GOP administration has recognized the deleterious impacts of past interventionist policies in the agricultural sector and has stated as a basic policy that the role of government is to be generally limited to

providing a sound policy and institutional framework and public investment necessary to stimulate private initiative. In line with this policy, the GOP has indicated its intention to return large segments of the economy (including critical areas of the agricultural sector) to the private sector. The GOP has already taken major steps in this direction including deregulation of sugar, coconut, wheat, and review of functions and status of the 25 or so agribusiness parastatal corporations.

The Minister of Agriculture and Food has formally requested USAID assistance in the divestiture and privatization of three parastatal institutions -- several subsidiary operations of the National Food Authority (NFA), the Philippine Cotton Corp. (PCC) and the Philippine Dairy Corp. (PDC). Through the services of the Center for Privatization, USAID is currently providing assistance to the GOP in examining the functions and financial status of subsidiaries of the NFA. This assistance will support initial valuation and development of procedures for divestiture of non-grain related enterprises of the NFA. In addition, USAID/Manila is supporting the GOP's overall effort to establish a framework for privatization that is applicable in the Philippine context. Under the AAP Project, monies will be provided to continue technical assistance in relieving the budgetary drain and generating resources through the lease or sale of acquired assets and parastatals.

Subproject Activities: The AAP Project will support the GOP in the full divestiture or privatization of publicly held agriculturally-oriented enterprises. U.S. assistance will initially fund advisory services for the purpose of developing a policy and operational framework for divestiture which will address the issues of asset valuation; fairness in pricing; control of collusive buying practices; and development of an active strategy for marketing assets.

In addition to providing continuing assistance on the privatization of NFA subsidiary operations, AAP Project will also provide support to the divestiture of two public enterprises: the Philippine Cotton and the Philippine Dairy Corporations. This will involve analysis of financial status, constraints to privatization, commercial viability, valuation and phasing of divestiture. It is expected that the AAP Project will support divestiture of other state-owned or controlled enterprises during the life of project. Further analysis and discussion with GOP will identify additional areas for assistance. The items to be financed by the AAP Project are local and U.S. technical assistance for detailed planning of privatization actions.

b. Grain Price Stabilization, National Food Authority

Background and Problem Statement: Stabilization of basic food and feed grain prices is a critical developmental problem. The grain commodities constitute directly or indirectly major food costs, and thus relate to wage rates, industrialization and economic and political stability. Rice

constitute directly or indirectly major food costs, and thus relate to wage rates, industrialization and economic and political stability. Rice and corn account for major sources of farm activity, farm income and basic food for the populace and feed for livestock. Widely varying retail and farmgate prices of basic grains lead to discontent among consumers and low input use by farmers.

As with most nations, the Philippines has had mixed success in trying to stabilize commodity prices. In the case of rice and corn, the GOP has been involved in grain price stabilization for decades. The current debt and budgetary drain of NFA programs (largely due to operations other than cereals) has resulted in a situation where little or no funds are available for stabilization programs. Prior NFA intervention has also reduced private sector competition in grains markets. Unclear GOP policies towards price levels and the means of supporting them have caused tremendous uncertainty in the important grains sub-sector. The current policy is to; (a) establish a price stabilization program for rice and corn with the government as the buyer and seller of last resort, and (b) to manage imports and exports more judiciously than in the past to achieve price policy objectives. Requiring NFA to handle only rice and corn and be a buyer and seller of last resort significantly changes NFA's role. Divesting of peripheral missions and functions and organizing and financing the main mission in collaboration with the trade are important developmental issues which affect agricultural growth.

In summary, there is a need for the government to:

- (1) Divest NFA non-grain functions (addressed under privatization section of AAP);
- (2) Develop a general strategy and implementation tactics (with respect to pricing levels, quantity targets, and relations with the private trade) and to have NFA serve as a buyer and seller of last resort; and
- (3) Obtain financing for the grain stabilization program which permits it to function effectively.

The objective is to establish stable consumer and farmgate prices while fostering private trade and competition in the grains market. Funding under AAP Project will assist NFA to develop a policy and operational framework and programs to meet the goal of cost effective rice and corn price stabilization while fostering increased private sector involvement in grains market.

Subproject Activities: The AAP Project will provide resources to assist NFA to more effectively perform its role in grain stabilization. The Project will help NFA and MAF to focus on the following tasks:

- (1) Defining an appropriate strategic role for grain stabilization within the wider context of the agricultural economy and economic policy of the new administration;

- (2) Creating an effective analytical capacity in the agricultural sector institutions to translate the grain stabilization policies into specific intervention guidelines and procedures; and
- (3) Building an operational capacity within NFA to implement the intervention guidelines.

The initial approach to building NFA's analytical and operational capacity will be through a series of short courses designed and taught jointly by U.S. and Philippine experts and scholar-researchers. These will be geared to improving the effectiveness of NFA implementation of food price policy through the design and monitoring of procurement, storage, transportation and distribution procedures; physical and financial bottlenecks need to be identified. Joint trouble shooting teams will make spot visits in the field to report on implementation problems and successes. Reports generated from these trips will provide an important input to the analytical staff as it makes recommendations on price levels and margins for NFA to implement. Efforts to understand the gap between policy design and field-level implementation will be used to create hands-on teaching materials for the short courses taught to NFA's upper-level management and analytical staff.

The AAP Project will therefore provide technical assistance to help NFA in divesting of unnecessary operations and in developing alternatives for achieving price stabilization at affordable costs to the national treasury. Close linkages must be developed between the technical assistance efforts of the grain stabilization component and the statistics/economic component if effective price structures are to be achieved. The approach will be to continue to provide short term technical assistance for development of a better information base on (1) production and utilization of cereals, (2) volume and pricing for various procurement and release options, (3) operational methods vis-a-vis the private trade, (4) import/export planning, and (5) divestiture of NFA operations not central to the promotion of agricultural growth and consumer welfare.

c. Fertilizer Development

Background and Problem Statement: Fertilizer is one of the most important short term determinants of agriculture growth in the Philippines. Its effective use in significant quantities can be quickly translated into increased quantities of food and fiber as well as improved farm incomes. An efficient and effective fertilizer industry -- including all aspects of production, marketing and use -- is of critical importance to agriculture and is therefore included as an important component of this Project.

The previous Administration recognized the importance of fertilizer and became deeply and directly involved in nearly all aspects of the

fertilizer sector. This involvement included procurement and allocation of fertilizer imports; licensing of importers, distributors and dealers; price controls and setting of margins; subsidies to the producer and user; and the direct financing of Government production (PHILPHOS), distribution and marketing (New Agrix and Philippine International Trading Corp., PITC) units.

Despite (and perhaps because of) the heavy involvement by Government, fertilizer use in the Philippines ranks among the lowest in Asia. It is equally significant that growth in fertilizer use has been stagnant since 1979 and has actually declined since 1983. However, of greatest concern is the failure of the fertilizer sector to develop a dependable and efficient system to supply fertilizers to agriculture. Illustrative of this is the necessity of the sector to import 80 percent of its fertilizer requirements, the domestic industry which produces the remaining 20 percent is in deep financial trouble and on the verge of closing, and the fertilizer distribution system has been taken over by traders with little apparent commitment to make long term investments in the system.

There is considerable evidence that the heavy involvement of the previous Administration, particularly with regards to the regulation of the industry, and direct competition with the private sector in production and distribution, while ignoring important responsibilities such as fertilizer promotion, research and development, are major factors that have contributed to the current depressed state of the sector. This inappropriate focus by Government has contributed to high fertilizer costs to farmers and low profitability of use compared to other Asian countries.

The current Administration has recognized many of the inequities and inefficiencies of the fertilizer industry and has begun to address them. This is resulting in a series of policy changes. For example, the Fertilizer and Pesticide Authority (FPA) has liberalized imports and removed qualifications as a pre-condition for licensing of importers and distributors. In addition, the role of the FPA in a deregulated and privatized fertilizer sector is being re-examined. However, FPA has been asked to develop a contingency plan for the role of Government in procurement and price control should fertilizer supplies again become scarce and international prices of fertilizer again begin to climb.

Continued uncertainty regarding several key policy questions necessitates further study in specific areas. The most relevant appear to be:

- (1) Pricing Policy - Three very key elements of domestic pricing policy on fertilizer need to be addressed. These issues include the need to:
 - (a) Protect the retail fertilizer market from wide swings in price in the international market;

- (b) Assess whether domestic retail prices should be controlled by Government or set by free market forces; and
 - (c) Monitor developments in domestic and international fertilizer markets and assess the domestic market for fertilizers in relation to key commodities.
- (2) Rationalization of Fertilizer Supply - Currently agriculture has access to a wide range of fertilizer supplies from domestic and offshore sources. A decision needs to be made regarding the importance of each of these resources to agriculture.
 - (3) Privatization of the Fertilizer Sector - At present nearly all of the domestic fertilizer production capacity and 40 percent of fertilizer distribution is Government owned or backed. Policies and procedures are needed to provide an orderly divestiture of these facilities by Government and to attract sufficient capital from the private sector to cover future needs.
 - (4) Cost Effective Marketing and Distribution System - Historically, the cost of marketing and distribution of fertilizer in the Philippines has been among the highest in Asia. Technology must be established and policies developed that will lower these costs significantly, particularly in the area of improving the bulk receiving of fertilizer imports and their transshipment to inland markets.
 - (5) The Future Role of Government in the Fertilizer Sector - Clear definition is needed on the future role of Government in the fertilizer sector. Specific functions that need to be addressed are: regulatory, monitoring, sector analysis, policy formation, and research and development.
 - (6) Fertilizer Efficiency - A major way of lowering unit fertilizer costs to the farmer as well as the national economy is to increase its efficiency. Two areas needing attention are reduction of nitrogen losses and improved fertilizer recommendations.

Subproject Activity: A study of the fertilizer sector and related policies outlined above will be carried out by an internationally recognized consulting firm. Expertise will be needed in the following areas: chemical engineering, transportation, marketing, soil science, economics and fertilizer policy. The output will be an overall strategy and program for the fertilizer subsector including policy and technical recommendations concerning the role of FPA, PHILPHOS and Philippine equity in ASEAN plants; a short-term market-oriented strategy for handling and distribution of fertilizer and clear plans on how to improve on-farm fertilizer use.

d. Market Information Services

Background and Problem Statement: Market information is critical in order for the agricultural input supply network, commodity traders and farmers to adjust operations for profits and services. This is increasingly important as self-sufficiency is reached in various commodities, when international and local markets become saturated or when international markets are sought. The need for a more comprehensive market information system has long been recognized. Various programs have been started, but there is still dissatisfaction with the system. To accelerate agricultural production and improve efficiencies in marketing will require further development of the government's ability to provide market information for farmers, buyers and policy makers.

Market information is vital to efforts made to improve marketing systems as decisions of producers, traders, consumers and policy makers depend on information gathering and dissemination activities performed by different offices of government, by the news media, informal networks and by word of mouth. Among the government sponsored activities toward this end are:

- Agricultural Marketing News Service (AMNEWS) of the Bureau of Agricultural Statistics;
- Marketing Assistance Program (MAP) - an interagency pilot marketing assistance scheme;
- Market Information Network of the National Food Authority (NFA);
- Information Network of the National Food and Agriculture Council (NFAC);
- Price Monitoring System of the Bureau of Animal Industry (BAI); and
- Fisheries Information Service and Ministry of Trade and Industry.

However, only AMNEWS and MAP are actually servicing, to a limited degree, the information needs of farm producers with the latter being confined to pilot project areas. The rest serve agencies' planning and operational needs. The private market information initiatives, on the other hand, are largely confined to the big producers and traders. Small producers either have a limited role or are completely left out in the information structure. The government-provided information can be combined by users of less formal networks, which in total, should provide a more complete picture of what has gone on, the present state of markets and insights into the future trends in markets.

Subproject Activities: Assistance under this component will focus on the integration of governmental efforts into a single viable multi-agency marketing information network and will cooperate with private sector groups in their pilot market news services projects. Preliminary design

concepts have been identified for the new information system, but the first major activity under the subproject will be a formal assessment of existing activities and a final design for the new system. While a complete detailing of the phasing and identification of elements and development of the new system will necessarily await results of the design work, some of the elements to be undertaken by the new system, in addition to improved price reporting, will be:

- (1) Greater attention to foreign markets and information which will help enhance exports and minimize import costs. This will entail training agricultural attaches, joining and participating in international market news networks and generally tracking and reporting on traded commodities, both for agricultural inputs and products;
- (2) Pilot activities co-sponsored by the private sector for market reporting and analysis at several municipal level sites, with monitoring to assess the impact at the primary sales and farm levels;
- (3) Greater use of various media (TV, radio and newspapers) to carry market information as a public service; and
- (4) Integration of data gathering and dissemination efforts in the Planning Service of the MAF.

Accomplishment of the above reorganizational and operational objectives will require (a) considerable training of relocated staff, many of whom may have new functions, (b) operational and commodity support for pilot municipalities, and (c) an enhanced publication/dissemination budget including limited foreign exchange for subscription to international news sources and networks.

e. Crop Diversification

Background and Problem Statement: While the Philippines can and indeed does produce a very wide array of crops, livestock and fisheries products, exports are heavily dominated by sugar and copra products and rice and corn dominate the crops for domestic use. The current low international prices for copra and sugar dramatize the need to diversify away from these products. Low world prices of rice and small national rice surpluses also indicate a need to be able to diversify rice land - particularly if highly productive technology is to be widely adopted. The development of new options for farmers will require the identification of:

- (1) Existing unfulfilled local or foreign demand and potential markets for raw farm produce;
- (2) The agronomic and economic potentials for new crops; and

- (3) The possibilities for processing either traditional or new farm commodities.

Assuming potentials for new enterprises are thoroughly identified, investments in new farming practices and support services will also need to be detailed. Traditionally, there has been little government support for analysis of potential markets, for trade missions of producer and processing groups, or for dissemination on a systematic basis of information which might be mutually beneficial to producers, processors and traders.

Subproject Activities: To generate information for crop diversification this subproject will finance a series of feasibility studies, trade missions, and the preparation of investment profiles. Prior to financing new work, a review of prior studies will be carried out to update current market status. Specifically, the studies will consist of:

- (1) assessments of global trading patterns and demand and supply relationships for traditional and potential crops;
- (2) area specific feasibility studies for sugarland identified for alternate crops; and
- (3) feasibility studies for production and processing of fruits and vegetables including the production organization structure such as small holder, contract farming, integrated projects or other alternatives.

The studies will identify economic and biological research requirements and probable institutions which have the capacity to carry out the required research. The investment promotion aspects of the subproject will focus on identification of specific investment needs and returns, and financing arrangements. This will provide critical information for the private investment institution described in the following section. The trade promotion activity of the subproject will support trade missions, observation tours and establishment of market linkages through sponsoring follow up workshops or seminars on trade potentials primarily by the private sector.

The subproject will operate primarily through subproject grants to private sector groups with proven experience in trying alternative crops and development of new markets. The coordinating unit for the activity within MAF will be the new Agricultural Business Division. To the degree possible, the staff of this Division will participate in the studies, collect and disseminate findings from the studies, and backstop the trade missions. To the extent research is needed on specific items not covered by other research programs, this subproject will make grants to cooperating private firms which have special qualifications for conducting the required research. The foreign exchange costs for this subproject are for outside experts to conduct and review feasibility

study designs and findings or participate in seminars. Dollars are also provided to (a) finance foreign exchange costs identified in the study proposals or (b) other activities e.g., foreign travel, literature requirements, and minor specialized supplies attendant to discrete proposals.

f. Private Investment Institution For Agriculture

Background and Problem Statement: Past government intervention in the agricultural sector and the financial system, through regulation and excessive market participation, has reduced incentives for private sector financing of agribusiness investments. The little investment that has been forthcoming in agriculture has been financed almost exclusively on a short term basis, with little long term debt or equity participation. The high debt/equity ratios which characterize the majority of agribusiness ventures is both a cause and effect of limited growth in private investment in the sector. It is a cause in the sense that high financial leveraging and high and fluctuating interest rates severely strain the cash flow of new ventures, or those experiencing an industry-wide down turn. Its effect is one of discouraging financing institutions from underwriting potential agribusiness ventures. What is needed is a combination of substantial real equity investment by the principals, equity investment by others, and long term financing by institutions.

Presently, there is no substantial institution which takes either equity positions and long term debt obligations. The allocation of bank credit has largely been based on personal considerations and quality of collateral. Moreover, the lack of experience in agribusiness feasibility and loan appraisal has further dampened incentives for banks to underwrite such ventures. Government banks, while mandated to service rural areas, are financially insolvent, undergoing a massive restructuring and are prohibited from making equity investments. Development banks, ostensibly established to promote long term lending, generally have not fared well in identifying and financing viable investments. The rural banking system is experiencing severe financial difficulties with very high arrearages on outstanding loans.

In recognition of the abovementioned problems, USAID commissioned a private sector agribusiness opportunity assessment in late 1985. The study identified the major constraint as being inadequate mobilization and access to long term capital (including equity) and project packaging. Discussions with a broad cross section of the business community and government indicate strong support for the study's primary conclusion of the need for a self-sustaining mechanism for channeling private domestic and foreign capital into private sector agribusiness enterprises with high growth and employment potential.

Subproject Activity: The AAP Project will therefore provide assistance in examining the feasibility of establishing a private institution or mechanism to:

- (a) channel equity and long term debt financing to the agricultural sector
- (b) attract domestic and foreign investors to profitable agricultural enterprises.
- (c) introduce new production technologies and management systems.
- (d) strengthen capital markets by encouraging broad based ownership of enterprises through the public sale of equity in agribusiness enterprises.

The institution will promote, finance and help establish agribusiness enterprises, and assure appropriate technical assistance to projects it finances. It will also work closely with commercial and development banks; providing technical assistance and promoting joint financing of new enterprises. Such an institution will be pivotal in attracting financial resources from conventional commercial sources and packaging those resources.

The output of the feasibility study funded under AAP, if found to be favorable, would be a detailed prospectus for the proposed agribusiness finance facility. It is expected that a consortium of firms with substantial experience in investment banking and agribusiness development will carry out the assessment. The Project will provide resources to finance feasibility assessments and organizational activities.

3. Economic Analysis, Program Development and Statistical Functions.

The current agricultural policy statements of the new Administration are basically market-oriented and conducive to agricultural growth. This is consistent with AID policy stances. The immediate need is to begin the implementation of these initial policy pronouncements, and create a viable decision making process. There will be a continuing need for solid economic analysis. The AAP will support economic analytical efforts that review the results of past and existing policies, consider alternatives, and further outline the legitimate supporting role of government. The government recognizes that to modify policies and programs and monitor their impacts on production requires reliable and timely statistics and trained analysts to appraise and measure policy and program impacts on agriculture. The MAF recognizes that activities in the areas of economic analysis, planning and information are fragmented and disorganized. For this reason, the AAP will devote resources to the constraints in these areas.

a. Economic Analysis

Background and Problem Statement: Agricultural economic and policy analyses and planning capabilities in government are presently limited, fragmented and disorganized. At the same time, the substantial changes underway in economic philosophy toward freer markets and less involvement of government in the economy will complicate decision making processes in both government and the private sector. These changes greatly expand the need for an analytical capability in MAF to monitor economic developments and interpret the impact of economic changes, programs and plans on production, trade, consumption, pricing and returns to farmers. Because of limited capacity in government to carry out economic analyses and policy assessments, the government requested help from the universities and the business community. In recent months, the universities have published their views on broad policy issues on agriculture and the general economy. These assessments were favorably received and used as guidelines by the new government in its economic and policy agenda.

The Ministry of Agriculture and Food will develop its own capacity for economic analysis and program/policy assessments. However, the private sector will likely continue active interest and participation in policy development and evaluation. Moreover, the universities should continue to improve their capacities to train students in analytical techniques used in economic analyses, policy assessments and planning.

Subproject Activities: In response to the above problems, the AAP Project will make direct subproject grants to supplement previous funding of economic analysis activities being undertaken by the Center for Policy and Development Studies at the University of the Philippines at Los Banos and other Regional Universities. Subproject grants will also be provided to the private sector groups.

In order to develop a capability in the Ministry of Agriculture and Food to monitor the effects of commodity and issue-specific policies, MAF plans a separate Economic and Policy Analysis Division under the supervision of the MAF's Assistant Minister for Statistics, Policy and Planning. The AAP Project will support economic analytical and policy evaluation efforts in agriculture that lead to improved decision making and more effective program evaluation. In the meantime, MAF will continue to work closely with universities and private sector groups to support MAF assessment of major policy issues in agriculture. This will require contracts with the University staffs. The creation of a new economic and policy analysis division in MAF and the development, of a new staff will require reorganization of existing agencies and additional resources. The AAP Project will provide financial support and services to fund initial development and operations of the proposed new Economic and Policy Analysis Division through:

- (1) Technical support to assist in establishing the new analytical unit and specifying its missions;

- (2) Training and development of the staff to conduct economic analyses and policy assessments for agriculture, predominantly on-the-job training;
- (3) Purchase of equipment to support analytical work, more effective data handling and storage, more rapid and accurate reports, and publications of reports. Equipment will include:
 - (a) personal computers, word processing equipment and related support equipment; and
 - (b) copying machines, typewriters, and other office equipment to support field operations in economic and policy analysis.
- (4) Formal training for the staff, mainly local degree and non-degree training and some foreign degree training;
- (5) Support for Regional Outlook Conferences in coordinating regional planning and development;
- (6) Support of operating expenses to facilitate national and regional activities in economic analysis and planning; and
- (7) Assistance on timely publication of regular commodity assessment, sector analyses, special studies and program/policy analyses.

The AAP Project will also grant financial assistance for several topical areas to support continued training and policy analysis work at University of the Philippines at Los Banos (UPLB) and major Regional Universities. This support will include:

- (1) A long-term U.S. Coordinator;
- (2) Support for local research fellowships;
- (3) Funding for short-term training at U.S. universities;
- (4) Financing for national and international conferences on agricultural development and policy issues;
- (5) Funding for the creation of a microcomputer training facility, an information dissemination unit and a small research library facility;
- (6) Limited purchases of equipment, support services, travel and supplies; and
- (7) Technical assistance from foreign consultants.

Private groups will support public dialogue on key policy issues. AAP assistance will include subproject grants over the life of the project to support staff, contract analyses, and national and regional conferences.

b. Planning and Program Development

Background and Problem Statement: Planning and project development activities under the previous administration had a central government orientation and thus often were not relevant to local development priorities. Planning activities under a centrally-managed government are seldom well adapted to a program of decentralized planning for a free market economy. Accordingly, planning staffs need extensive retraining in the techniques and philosophy of planning in order to facilitate local development of relevant projects.

Planning/programming and project development/evaluation functions are vested in the Planning Service (Admin. Order No. 18, Series 1985). There are about 60 permanent employees in the Planning Service but most are assigned in other units or staff bureaus of the Ministry. Presently, the service has a number of new contractual employees. There are no strict functional boundaries between the planning/program and project development/evaluation divisions although general functions have been specified.

Subproject Activities: The strengthening of the capability of the Planning Service will require extensive training, some support equipment and facilities, and technical assistance. Support from the AAP Project would greatly improve the unit's project planning and development capabilities. Moreover, training of regional planning personnel is needed to enhance planning capabilities in the regions. In organizing and redirecting the mission and operations in planning and project development at the national and regional/provincial levels, activities will focus on the following:

- (1) Reorganization and staffing of the existing planning/programming and project development/evaluation divisions. This shall involve an assessment of the existing personnel of these two divisions in terms of the staff's fields of specialization, training and experience as well as overall manpower requirements.
- (2) Development of training needs. Training coverage shall include agricultural planning, program/project monitoring and evaluation, program/project development and management. In-house training on project feasibility studies shall also be conducted. Since the bulk of actual planning exercise shall be at regional levels, training priority will be given to regional planning staffs.
- (3) Procurement of equipment that will facilitate processing data and information, office machines and staff field work activities.
- (4) Develop proposals and pre-proposals for public/private investment in key rural areas.

In order to facilitate the redirection and strengthening of MAF capacity in planning and project development, the AAP Project proposes to support activities of the Planning Service with financial and technical support in the following areas:

- (1) Training for central office and regional office staffs, local degree and non-degree training, on-the-job training (in-house) and foreign degree and non-degree training;
- (2) Equipment and commodities, including personal computers and office equipment;
- (3) Operating costs for supplies, maintenance services, and repairs;
- (4) Conferences, travel for on-site assessments and regional coordination; and
- (5) Technical assistance, local and foreign, in support of training and assistance in national and regional/provincial planning and project development.

c. Agricultural Statistics

Background and Problem Statement: Statistical data available for agriculture is incomplete, released irregularly and is of questionable reliability. This problem is recognized and the government has taken measures to strengthen and expand the functions of a newly created Bureau of Agricultural Statistics (BAS). However, most of the staff for the new BAS will be composed of employees of the former Bureau of Agricultural Economics (BAEcon) staff which has few trained, professional statisticians--less than one percent of the staff. Moreover, the staff is poorly equipped to conduct current duties in a timely manner and it will need strengthening to take on additional duties that are being proposed for the greatly expanded responsibilities of BAS for statistics on agriculture, fisheries, farm households and markets. Because of the crucial need for reliable and timely statistics to monitor developments and provide a basis for economic and policy analysis work, the AAP Project will support this expanded BAS mission.

Subproject Activities: Major activities will center on measures to overcome problems involved in improving sample designs, collection techniques and reporting as well as staff training and development. The focus of the new BAS will continue to be the rice and corn production estimates, but estimates will reflect improved techniques and regular reporting schedules. Moreover, commodity coverage will be expanded to include: (1) Livestock, poultry and fish data from new market surveys, regulatory statistics and private trade and association's data; (2) A system of retail, wholesale and farm prices on a comparable basis for all commodities; and (3) Farm household surveys on farming operations, family income, employment and consumption.

In approximate order of priority, the following activities will be emphasized during the course of the Project:

- (1) Mechanize data processing and data banks for quick retrieval, report preparation and release. This will include staff training, additions to computer hardware, and limited technical assistance.
- (2) Training to upgrade the staff in sample design, questionnaire development and the conduct of field surveys. These activities will be done as part of the government's overall statistics program. BAS will require resources and some technical assistance for development of new methodology and for on-the-job training.
- (3) Initiate work on Province-level estimates and reporting. This will entail the examination of sample designs and size for reliable Province estimates, the development of Province statistical units, specification of their relationship to BAS and Province political leadership, and consistent timely reporting of available Province data.
- (4) Develop estimating techniques and greater accuracy for livestock data and for estimates on fruits, vegetables and many minor crops.

Over the life of the AAP Project, the following inputs will be provided by USAID for the reorganization of BAS operations, staff upgrading and increased efficiency and impact of the enhanced BAS data collection processing and dissemination roles:

- (1) Computer hardware (personal computers) to facilitate the processing, maintenance of data banks, and ready preparation of reports at both the national and regional/provincial levels;
- (2) Technical assistance to support training and staff development at the national and regional/provincial levels;
- (3) Support for increased operating costs for materials, services and maintenance occasioned by increased and more timely reporting and expanded provincial level activities; and
- (4) Support for materials and publication costs of current and expanded publication of statistical data.

III. Project Approach/Project Administration

The acceleration of agricultural production from the slow growth of the early 1980's will derive in a large part from a number of significant policy changes which have been proposed. This Project will assist in the implementation and continued economic analysis of policy options. There remains a need to improve technical and marketing services for

farmers and agriculturally oriented businesses. U.S. resources could be directed to implementation of the policy recommendations and improvement of technical and marketing services through a series of discrete projects. However, the Mission believes that at this time--given the state of policy, institutional and programmatic flux in the new administration--that the advantages of a broader project which addresses a series of critical sector problems and establishes the basic groundwork for future investments, outweighs the use of many single focus projects.

The primary reasons for the broad scope and composite nature of the Project are related to the current needs to establish immediate, concrete action programs and to initiate the basic steps needed for the development of bankable projects for the near future. This Project has been developed amidst the backdrop of significant turmoil within sector institutions as they undergo substantial transitional changes. For these reasons the Project has been structured to allow for immediate implementation of subprojects in several areas (irrigation, economic analysis and statistics), funding for substantive studies that are expected to lead to additional investments (fertilizer, grain stabilization, crop diversification, private investment facility, market information) and support for governmental reorganization of agricultural institutions (privatization, improved management services, agricultural research and dissemination of technology, planning of MAF programs). Project resources can be shifted to meet changing needs or new requirements. This approach provides a better forum for dialogue on broad agricultural development issues than would a series of projects. Finally, a project which can be readily modified to finance the activities described will economize scarce management resources.

Over time, as the new Administration and private sector institutions design more concrete programs, and depending upon the availability of funds, the various studies may ultimately form the basis for Philippine, U.S. or other investors' new projects. If U.S. financed, the new activities may be set up as entirely new projects or carried out as an components under this Project.

A. Project Approach. During project development several major components, or subprojects have been identified. Basically the Project resources will be of two types. First are resources which will impact directly on farm production. These include funds for improving the performance of irrigation systems and funds to carry out agricultural research and farm based production demonstrations. The second set of resources will finance several activities in support of economic analysis and policy development for the agricultural sector and market development. Both types of activities will contribute to accelerating agricultural growth and lead to improved service for farmers and agricultural businesses

B. Project Implementation

1. Overall Project Implementation

The Project will be composed of three primary components (1) services to farmers, (2) market development, and (3) economic analysis and planning. USAID and NEDA will execute the Project Agreement. MAF, NIA, universities and non-governmental organizations (NGOs) will be the implementing entities for the subproject activities under these project components. USAID will make direct subproject grants to NGOs and universities for those subcomponent activities they will implement, after obtaining MAF approval of the activities to be supported under the subproject grants.

2. Implementing Entities

a. Ministry of Agriculture and Food (MAF)

MAF will implement selected subproject activities under all three of the project components identified above. A project implementation unit will be established within the Office of the Deputy Minister to review and approve subproject activity implementation plans and proposals submitted by MAF organizational units and affiliated agencies such as the National Food Authority (NFA), and to endorse such plans or proposals to USAID. In selected instances this unit will also develop subproject activities for implementation. The project implementation unit head will be a full-time Director who will report directly to the Deputy Minister. The unit will also be responsible for coordinating and monitoring subproject activities and ensuring that acceptable management and procurement procedures are carried out. Subproject proponents are expected to include the Economic and Policy Analysis Division and Agribusiness Division of the MAF Planning Service, the MAF Bureau of Agricultural Statistics, and the MAF affiliated institutions, National Food Authority (NFA) and Fertilizer and Pesticide Authority (FPA).

b. National Irrigation Administration (NIA)

NIA will implement the Irrigation subcomponent of the Services to Farmers component of the project. A project implementation unit will be established within the Office of the Assistant Administrator for Systems Operation and Equipment Management (AASOEM) to consolidate implementation plans submitted by regional NIA offices, ensure the quality of the plans and adequacy of management and procurement procedures, submit these plans to USAID for review and approval and monitor NIA project activities. The unit will have a full time Director who will report directly to the Assistant Administrator.

c. Universities and Non-Governmental Organizations

USAID may enter into direct contracts or make subproject grants to (1) Philippine universities, Philippine private agribusiness firms, private voluntary organizations (PVOs), and other Philippine or U.S. non-governmental organizations for technical support, research, and studies; and (2) Philippine private firms or other non-governmental organizations for holding regional agricultural conferences and performing related studies. Prior to entering into any such contract or subproject grant, USAID will obtain the approval of the Director of the MAF Project Implementation Unit of the proposed activity to be supported under the contract or subproject grant. Approximately \$1,785,000 will be earmarked for these activities. After obtaining MAF approval of the proposed activity, these subproject grants and contracts will be entered into by USAID independently using Project funds.

3. Implementation Process

a. Ministry of Agriculture and Food (MAF)

(1) General Contract for Technical Assistance, Studies and Training

USAID may utilize a direct AID general contract with a U.S. institution in a joint venture or subcontractual relationship with a Philippine institution to provide technical assistance, training and conduct studies under the following subprojects:

(a) Improved Management Services of MAF

The MAF general contractor will provide a long-term implementation specialist who will assist the MAF project implementation unit develop and implement (1) a system of communication among different levels within MAF, (2) an improved monitoring system for MAF programs, and (3) an improved methodology for subproject design; and who will liaise with USAID. A study of MAF management systems will be undertaken and short-term U.S and local technical assistance, workshops and associated travel will be provided to upgrade MAF management capabilities and help the MAF project implementation unit work more effectively with MAF affiliated entities.

(b) Market Information Services

The MAF general contractor will provide technical assistance to the MAF Planning Service in the

assessment of existing market information systems and in the design, implementation and evaluation of a new, integrated market information system; and will also provide associated local non-degree training.

(c) Crop Diversification

The MAF general contractor will provide assistance in developing the following studies for the MAF Agribusiness Division:

- (1) a review of prior studies focusing on domestic and foreign market demand for unprocessed farm produce;
- (2) an assessment of global trading patterns and demand and supply relationships for traditional and potential crops;
- (3) area specific feasibility studies for sugarlands identified for alternative crops; and
- (4) feasibility studies for production and processing of fruits and vegetables.

The studies will be carried out through grants to private entities as described below under non-governmental organizations, crop diversification, paragraph c.(2).

(d) Economic Analysis, Program Development and Statistical Functions

The MAF general contractor will provide technical assistance and training for the MAF Economic and Policy Analysis Division of the MAF Planning Service, MAF regional offices, and the MAF Bureau of Agricultural Statistics under the Economic Analysis, Planning and Program Development, and Agricultural Statistics subprojects, respectively, as detailed in the descriptions of these subprojects in the Project Description Section.

USAID together with MAF will develop the scope of work and execute a PIO/T to initiate this contracting action as soon as possible after project obligation, with the stipulation that execution of the contract would be contingent upon prior satisfaction of the Conditions Precedent to Initial Disbursement.

(2) Agricultural Research and Outreach

As soon as possible after project obligation, MAF and USAID will execute a PIO/T for a work order under an IQC or for other contracting mechanisms for assistance in the design of a research program based on findings of a study of the agricultural research system, recommendations for rationalization of the system and priorities of research needs. Execution of the contract or work order will be contingent upon prior meeting of Conditions Precedent to Initial Disbursement.

(3) PRE Bureau Contracts

(a) Privatization

Pursuant to USAID and MAF development of a scope of work and execution of a PIO/T, AID will procure the services of a U.S. contractor to assist MAF in developing the framework and executing the privatization of non-grain functions of NFA, and the privatization of the Philippine Dairy Corporation and the Philippine Cotton Corporation. USAID may utilize the AID/Washington PRE Bureau Privatization Contract for these services.

(b) Private Investment Institution for Agriculture

AID will engage the services of a U.S. contractor to determine the feasibility of establishing a private sector agribusiness investment company and to develop a prospectus for its promotion. MAF will develop the scope of work and execute a PIO/T with USAID to procure these services. USAID may utilize the PRE Bureau Financial Markets or Private Enterprise Support Contracts.

(4) Other Contracts for Technical Assistance, Studies and Training

An AID direct contract with a U.S. institution will provide technical assistance and training to NFA under the Grain Price Stabilization subcomponent. A separate AID direct contract will provide a study for the Fertilizer and Pesticide Authority under the Fertilizer Development subproject. The implementing agencies together with USAID will develop scopes of work, and MAF and USAID will execute PIO/Ts to initiate these contracting actions.

(5) Operational Support

Operational support will be provided for MAF under the following subprojects: Improved Management Services, Market Information Services, Crop Diversification, Economic Analysis, Planning and Program Development, and Agricultural Statistics. Operational support will include but not necessarily be limited to funding of local contract personnel, travel costs, shelf-item procurement of office equipment, and publication costs. Goods and contract services will be obtained under the host country procurement mode in accordance with procedures set forth in AID Handbook 11. The MAF project implementation unit will develop a detailed annual implementation plan for operational support requirements of MAF for submission to USAID. If the plan is acceptable, USAID will respond with a PIL authorizing implementation to proceed.

(6) Microcomputer Equipment

Microcomputer equipment will be provided to the Economic and Policy Analysis Division and the Bureau of Agricultural Statistics of MAF under the Economic Analysis and Agricultural Statistics subprojects. MAF and USAID will agree on specifications and execute a PIO/C. USAID may procure the equipment from the U.S. through a PSA in the event of a bulk order. Otherwise, USAID will procure the equipment locally as shelf items.

b. National Irrigation Administration (NIA)

The annual, integrated implementation plans NIA will submit to USAID will detail planned implementation of operational support including: (1) irrigation systems repair, (2) training, and (3) other operational support.

(1) Irrigation Systems Repair

Regional NIA offices in the targetted regions will submit annual implementation plans to the NIA project implementation unit for review, consolidation and submission to USAID. Before irrigation plans are forwarded to the NIA project unit, Regional NIA Directors will submit them to the Regional Development Councils in their respective regions for consideration. The implementation plans will contain cost estimates for the minor repair of approximately 18 national systems and 380 communal systems over the life of the project. If the consolidated annual implementation plan is acceptable to USAID, it will issue a PIL authorizing work to proceed. Systems repair will be undertaken primarily by

force account, although there may be a few instances where private construction contractors will perform the work. In those instances the guidance provided in AID Handbook 11, Chapter 2 - Procurement of Construction Services will be followed. NIA provincial offices will undertake the repair of communal systems, regional offices will be responsible for national systems.

NIA will notify USAID as repairs are completed. USAID engineers will monitor all on-going and inspect all completed work on national systems and monitor on-going and inspect completed work on a sample of at least 20 percent of the communal systems. USAID reserves the right to increase the level of USAID monitoring and inspections. The purpose of the field inspections will be to verify the quality and quantity of work and reasonableness of cost. If irrigation system repair requires the preparation of detailed specifications, USAID will review and approve these specifications for technical adequacy and cost reasonableness.

(2) Training

NIA will directly implement the local training of its personnel and the water users. Annual plans NIA will submit to USAID will set forth estimated costs for short-term, local training modules.

(3) Other Operational Support

The annual, consolidated implementation plan the NIA project implementation unit will prepare for submission to USAID for review will include a detailed explanation and breakdown of other appropriate operational support requirements. A USAID PIL approving the plan will be required before implementation can begin. The Project will fund contract staff (primarily community organizers), in-country travel, workshops, and development and publication of training materials. Host country procurement procedures set forth in AID Handbook 11 will govern procurement of goods and contract services.

(4) Technical Assistance and Studies

(a) Personal Services Contract

An AID direct personal services contract will be used to provide a long-term project implementation specialist who will assist the NIA project implementation unit in developing and implementing an improved monitoring

system and an improved system for coordinating NIA activities among its central, regional and provincial offices. This specialist will also liaise with USAID. USAID together with NIA will develop the scope of work and execute a PIO/T as soon after project obligation as possible.

(b) NIA General Contract

USAID may procure the services of a direct AID general contractor for services to NIA to provide (1) a long-term field research facilitator to assist NIA in preparation of a study agenda and planning and implementation of its research process; (2) short-term, recurring assistance to NIA in reviewing its overall strategy and directions; and (3) subcontracted studies to address policy issues. AID and NIA will develop the scope of work and execute a PIO/T to initiate the contracting action.

c. Non-Governmental Organizations and Universities

Prior to entering any subproject grants with non-governmental organizations, USAID will obtain the approval of MAF of the proposed activity to be supported under the subproject grant.

(1) Agricultural Research and Outreach

NGOs and universities will submit directly to USAID for review and approval, proposals for activities to demonstrate innovative extension technologies. USAID will provide subproject grants directly to selected NGOs and universities for these activities.

(2) Crop Diversification Subcomponent

USAID will accept study proposals directly from NGOs, private agribusiness groups or firms. Such entities with acceptable proposals will receive subproject grants directly from AID if the proposals are acceptable. The purpose of these subproject grants will be to locate existing or potential domestic and international markets for Philippine agricultural products.

(3) Economic Analysis

(a) Subproject Grant for Universities

USAID may make a subproject grant directly to a selected U.S. PVO to serve as the intermediary for

managing economic and social research grants issued to researchers in local universities. These research grants will be issued in accordance with criteria developed by USAID, pursuant to the submission by the staff affiliated with local universities of meritorious economic research proposals to the intermediary organization. The purpose of this arrangement is to facilitate management and coordination of economic and social research activities and to ensure the academic independence of the beneficiaries.

The intermediary organization will provide funds for research, stipends and related support costs, office equipment and library materials, and manage short-term training at U.S. universities for beneficiary university personnel.

(b) Subproject Grants to Private Sector Organizations

Private sector organizations may submit directly to USAID detailed proposals for preparatory background policy analysis, materials preparation, and regional agribusiness conferences. If the proposals are acceptable, AID will provide funds directly to the private sector organizations on a subproject grant basis.

4. Commodity Procurement Plan

The Project intends to finance microcomputers, research equipment and supplies, publications, office furniture and equipment to support the implementing entities.

- a. Responsible Agencies: Local procurement under this Project will be conducted by the implementing agencies and USAID, and a Procurement Services Agent (PSA) may be used for offshore procurement.
- b. Source of Procurement: The authorized sources for the procurement of goods and services are Code 000 (U.S. only) and the Philippines for grant financed commodities.
- c. Method of Procurement: Procurement will be in accordance with AID regulations and good commercial practices. As a matter of procedure the following will be observed:
 - On the basis of approved equipment lists, USAID will prepare Project Implementation Orders/Commodities (PIO/Cs) as needed.

- All imported commodities will be shipped CIF Manila. Suppliers will be required to obtain all risk insurance in the amount of 120% of the CIF costs. AID shipping and marking regulations will be observed.

d. Receipt and Utilization: The implementing agencies will be responsible for monitoring the arrival of their respective commodities and clearing them through customs. They will also be responsible for inspection of arriving commodities and preparing receiving reports. The implementing agencies will further insure prompt and proper utilization of the commodities procured under this project.

5. Monitoring

The project implementation units within MAF and NIA will be responsible for monitoring project activities of MAF and its affiliated agencies, and NIA, respectively. Contracted advisers attached to each of the two project implementation units will assist in the development of monitoring systems and in monitoring and reporting activities. The project implementation units will submit quarterly reports to USAID. The NIA project implementation unit will also receive periodic monitoring reports from NIA regional offices in the targetted regions. Such reports will also be forwarded to USAID.

USAID engineers will conduct field inspections for all repairs to the national irrigation systems and on a sample basis for communal irrigation systems repaired under the Project.

Non-governmental organizations and universities will be required to submit quarterly reports to USAID.

6. USAID Project Management Staff

The Chief of the Policy and Planning Division of the Office of Rural and Agricultural Development (ORAD) will be responsible for USAID's management of the Project. He will be assisted by four U.S.D.H. Project Officers and four Philippine program specialists experienced in the areas of research and extension, food processing and marketing, data analysis, and irrigation.

The Project Officer will draw upon assistance from other members of the project committee as needed, including the Office of Capital Development, Controller, and Legal

Counsel. Regular reviews of progress will be held at least quarterly involving senior USAID management. If major problems surface relative to achieving the project's purpose, these reviews will be followed by meetings involving senior USAID and implementing agency officials as necessary.

7. Implementation Schedule

Following is a schedule of project implementation milestones:

<u>CY 1986</u>		<u>Responsible Entity</u>
- Authorization of Project	August 1986	USAID
- Obligation of FY86 funds	August 1986	USAID/NEDA
- T.A. for MAF general contract, PIO/T signed	September 1986	USAID/MAF
- T.A. for NIA project implementation unit (PSC), PIO/T signed	September 1986	USAID/NIA
- T.A. for fertilizer study, PIO/T signed	September 1986	USAID/MAF/FPA
- T.A. for grain stabilization, PIO/T signed	September 1986	USAID/MAF/NFA
- Project implementation units established	October 1986	MAF/NIA
- T.A. for research system assessment and design, PIO/T signed	October 1986	USAID
- Intermediary for university grants, proposals requested	November 1986	USAID
- Satisfaction of initial CPs	November 1986	GOP
- T.A. for privatization, PIO/T signed	November 1986	USAID/MAF
- T.A. for agr. finance, PIO/T signed	November 1986	USAID/MAF
- First year plans submitted	November 1986	NIA/MAF
- NIA general contract, PIO/T signed	December 1986	USAID/NIA
- T.A., NIA project implementation unit, contract signed	December 1986	USAID/Contractor
<u>CY 1987</u>		
- Initial subproject activities begin	January 1987	NIA/MAF
- T.A. for privatization, work order signed	February 1987	AID
- T.A. for agr. finance, work order signed	February 1987	AID
- Research study and design, work orders signed	February 1987	USAID
- T.A. for crop diversification, PIO/T signed	February 1987	USAID/MAF
- T.A. for fertilizer study, contract signed	June 1987	USAID/Contractor

- | | | |
|---|----------------|------------------|
| - T.A. for grain stab., contract signed | June 1987 | USAID/Contractor |
| - Intermediary for university grants, subproject grant executed | July 1987 | USAID/PVO |
| - MAF general contract signed | July 1987 | USAID/Contractor |
| - NIA general contract signed | September 1987 | USAID/Contractor |
| - T.A. for crop diversification, contract signed | October 1987 | USAID/Contractor |
| - First process evaluation, PIO/T signed | October 1987 | USAID/MAF |

CY 1988

- | | | |
|---|---------------|-----------|
| - First process evaluation conducted | January 1988 | USAID |
| - Second process evaluation, PIO/T signed | November 1988 | USAID/MAF |

CY 1989

- | | | |
|--|---------------------------------------|------------------------|
| - Second process evaluation conducted | January 1989 | USAID |
| - Termination of advisers to MAF and NIA project implementation units; decision whether to extend services | January 1989 (NIA)
July 1989 (MAF) | USAID/NIA
USAID/MAF |

CY 1991

- | | | |
|-----------------------------------|-------------------|-----------|
| - Impact evaluation, PIO/T signed | January 1991 | USAID/MAF |
| - Impact evaluation conducted | May 1991 | USAID/MAF |
| - PACD | December 31, 1991 | |

C. Cost Estimate and Financial Plan

1. Life of Project Cost Estimates

Total project costs for five years is estimated at at \$27.025 million, of which AID will provide \$20.0 million (74%) and the Philippine contribution is estimated at \$7.025 million (26%).

The Philippine contribution to the Project will be primarily in the form of in-kind support such as personnel detailed to the Project and administrative and logistic support. Private sector recipients of assistance will be expected to contribute at least 25 percent of the cost of the activities in which they are involved.

The estimated life of project costs by source of funds are summarized in Table 1. The Project will be incrementally funded. At this time AID is obligating \$13.816 million for fiscal year 1986. The estimated AID project costs by year and component are summarized in Table 2. Table 3 summarizes the estimated project costs by input source.

Table 1. SUMMARY LIFE OF PROJECT COSTS BY SOURCE OF FUNDS (Thousand U.S. Dollars)
USAID AND PHILIPPINES, 1986-1991

COMPONENTS	USAID GRANT	PHILIPPINE COUNTERPART	TOTAL
A. Services to Farmers	13,190	4,230	17,420
- Irrigation, NIA	7,760	2,810	10,570
- Agr. Research & Outreach	5,180	1,105	6,285
- Improved Management Services, MAF	250	315	565
B. Market Development	2,975	1,125	4,100
- Privatization: NFA, PCC, PDC	700	50	750
- Grain Stabilization, NFA	400	200	600
- Fertilizer Development, FPA	360	150	510
- Market Information Services	515	175	690
-- MAF	415	75	490
-- Non-Governmental	100	100	200
- Crop Diversification	700	450	1,150
-- MAF	310	60	370
-- Non-Governmental	390	390	780
- Private Investment for Agr., Priv	300	100	400
C. Economic Analysis/Planning/Stat	2,965	1,600	4,565
- Economic Analysis	1,770	725	2,495
-- MAF	535	225	760
-- Universities	1,000	350	1,350
-- Non-Governmental	235	150	385
- Planning/Program Development, MAF	295	150	445
- Agr. Statistics, MAF/BAS	900	725	1,625
D. Project Management Services	870	70	940
- Project Management	450	40	490
- Evaluation	250	10	260
- Design	120	20	140
- Audit Review	50		50
TOTAL	20,000	7,025	27,025

Table 2. SUMMARY OF ESTIMATED USAID PROJECT COSTS BY YEAR AND COMPONENT (Thousand U.S. Dollars)

I. OBLIGATIONS BY FY	86	87	88	89	90		TOTAL
GRANT	13,816	1,184	2,000	2,000	1,000		20,000
II. BUDGET (CALENDAR) YEAR	87	88	89	90	91	Contingency	TOTAL
A. Services to Farmers	1,530	2,500	3,250	3,225	1,700	985	13,190
- Irrigation, NIA	1,250	1,750	2,000	1,600	700	460	7,760
- Agr. Research & Outreach	180	700	1,200	1,600	1,000	500	5,180
- Improved Management Services, MAF	100	50	50	25		25	250
B. Market Development	1,145	805	345	270	135	275	2,975
- Privatization: NFA, PCC, PDC	360	270				70	700
- Grain Stabilization, NFA	135	90	45	45	45	40	400
- Fertilizer Development, FPA	225	100				35	360
- Market Information Services	100	150	100	75	40	50	515
-- MAF	80	130	80	55	30	40	415
-- Non-Governmental	20	20	20	20	10	10	100
- Crop Diversification, MAF/Priv	100	150	200	150	50	50	700
-- MAF	75	75	75	50	25	10	310
-- Non-Governmental	25	75	125	100	25	40	390
- Private Investment for Agr., Priv.	225	45				30	300
C. Economic Analysis/Planning/Stat	650	770	565	430	270	280	2,965
- Economic Analysis	370	470	335	265	160	170	1,770
-- MAF	200	150	90	45		50	535
-- Universities	135	270	180	180	135	100	1,000
-- Non-Governmental	35	50	65	40	25	20	235
- Planning/Program Development, MAF	100	75	50	30	20	20	295
- Agr. Statistics, MAF/BAS	180	225	180	135	90	90	900
D. Project Management Services	285	175	140	75	125	70	870
- Project Management	135	110	70	50	45	40	450
- Evaluation	50	40	70		80	10	250
- Design	100					20	120
- Audit Review		25		25			50
TOTAL	3,610	4,250	4,300	4,000	2,230	1,610	20,000

Table 3. SUMMARY LIFE OF PROJECT COST ESTIMATES BY INPUT SOURCE
(Thousand U.S. Dollars)

PROJECT INPUTS	USAID	COUNTERPART			TOTAL
		MAF	NIA	NGOs & UNIVERSITIES	
A. Technical Assistance	3,670				3,670
B. Training/Workshops/Conferences	1,155	306		150	1,611
C. Research Grants/Fellowships	1,710	165	436		2,311
D. Operating Costs	6,355	2,165	504	450	9,474
E. Commodities	365	128			493
F. Publication/Documentation	642	226			868
G. Irrigation	5,378		1,570		6,948
H. Other Costs	675	500	300	125	1,600
I. Audit Review	50				50
TOTAL	20,000	3,490	2,810	725	27,025

2. Description of Items to be Financed by USAID

a. MAF Implemented Activities

USAID will provide funds for technical assistance; commodities; agriculture statistics; research and extension outreach; operational support for management services; market information services; economic analysis; and planning and program development.

b. NIA Implemented Activities

USAID will provide funds for technical assistance; rehabilitation of approximately 18 national and 380 communal irrigation systems; and training programs for organizers, NIA personnel and Irrigators' Associations. Research and special studies will also be conducted in three regions to identify and solve problems under the Project.

c. NGO Implemented Activities

USAID will provide funds for technical assistance; commodities; grain price stabilization; fertilizer development; research and extension; investment promotion for crop diversification; private investment institution for agriculture; and economic analysis and planning.

Detailed estimates of budget allocations, are provided in Annex F.5. Specific expenditure estimates will be included in annual work and financial plans.

3. Funds Flow Procedures

a. GOP Agencies

The AAP Project is a new project and is not included in the GOP's 1986 General Appropriations Act or expected to be included in the Act for 1987. Accordingly, the reimbursable method of paying the implementing agencies is not possible until calendar year 1988. It is therefore anticipated that the Project will utilize the advance of funds method during the initial period of implementation. Beginning in calendar year 1988, project budgets are expected to be included in the GOP's General Appropriations Act and the reimbursable funding method can be used. In view of the foregoing and because regional offices will implement many of the various activities, quarterly advances will be needed.

The GOP implementing agencies will submit annual Work and Financial Plans (WFPs) for Project activities to the Office of Budget and Management (OBM) for review and approval.

After it approves the WFP, OBM will issue Advices of Allotment (AAs). The GOP implementing agencies will submit copies of the AA's to USAID.

The implementing agencies will prepare annual implementation plans (IPs). The annual IPs will be submitted to USAID for review and approval. These annual IPs are required to be submitted no later than 45 days prior to the beginning of calendar year 1987 and no later than 60 days prior to the beginning of subsequent calendar years. Upon USAID's approval of the IPs, the GOP implementing agencies may submit to USAID requests for cash advances (Standard Form 1034). Such requests must be certified by the respective Project Director in MAF and NIA, and include copies of the AAs. Requests for advances should be submitted to A.I.D. at least one month before the funds are needed to allow for the lead time required to process the check. The IPs, requests for cash advances and any required quarterly fiscal reports will be the basis used by USAID for determining the amount to be provided.

USAID will provide advances of funds to the GOP's Bureau of Treasury (BTR) for credit to the MAF and NIA accounts. BTR will then issue a certificate of funds deposited to OBM and provide a copy to the implementing agencies. Based on BTR's certification, the OBM will then issue notices of Cash Disbursement Ceilings (CDCs) to the implementing agencies.

MAF and NIA can immediately draw treasury warrants for the whole amount of the CDC. MAF and NIA will deposit the treasury warrants covering Project funds in separate, non-interest bearing accounts established for each of them solely for the Project. Since MAF receives its cash requirements from the GOP on a monthly basis MAF should request and OBM should provide the total amount of the advance in the first month of each quarter in order to have USAID advanced funds available for Project needs.

b. Non-governmental Organizations and Universities

Support for NGO's and universities will be provided through A.I.D.'s direct subproject grants. Non-profit NGO's and universities may use the advance method of financing. Profit-making NGO's must use the reimbursement method of financing. The NGO's and universities eligible for advances may submit a request for advance (Standard Form 1034) of quarterly cash needs, certified by the designated subproject head. Advance funds will be deposited in a non-interest bearing bank account established solely for the purpose of the Project. Withdrawals from this account will only be made for payments of authorized subproject expenditures.

GOP agencies, NGO's and universities are required to submit fiscal reports within one month following the close of each quarter to liquidate advances and/or claim for any reimbursements of local costs. The details on liquidating advances, seeking reimbursement, and the documentary requirements for these actions will be specified in Project Implementation Letters (PIL's) or other appropriate documents issued by USAID during project implementation.

c. Foreign Exchange Costs

All foreign exchange costs under A.I.D. direct contracts or subproject grants will be paid directly by A.I.D. A.I.D., at its option, may make direct payments to creditors under host country contracting or procurement actions, upon the written request of the implementing agencies.

l. Method of USAID Disbursement

- a. Direct Payments. Under the circumstances described above, A.I.D. may make direct payments to suppliers, contractors and NGO and university recipients of subproject grants.
- b. Reimbursement. Actual cost reimbursement methods will be used when appropriate, as described above. Under the reimbursement method of financing, the GOP agency or NGO, as the case may be, disburses its own funds and then is reimbursed by USAID upon submission of appropriate documentation.
- c. Advance/Liquidation. The advance/liquidation method of financing will be used when appropriate, as described above. Liquidation will be based on actual costs. The advance/liquidation method will be designed to ensure that the entity receiving the advance will have adequate cash flow to carry out Project activities.

Table 4 summarizes the various methods of implementation and methods of funding.

Table 4. METHODS OF IMPLEMENTATION AND FINANCING

<u>INPUTS</u>	<u>METHODS OF IMPLEMENTATION</u>	<u>METHODS OF FINANCING</u>
1. Technical Assistance	a) AID direct contract	direct payment
2. Training/Workshop/ Conferences	a) AID direct contract/ procurement b) HC contract/procurement c) HC contract/procurement	direct payment direct reimbursement advance/liquidation
3. Research/Grants/ Fellowships	a) AID direct sub-grant b) AID direct contract/ procurement c) HC contract/procurement d) HC contract/procurement	direct payment direct payment direct reimbursement advance/liquidation
4. Operating Costs	a) HC contract/procurement b) HC contract/procurement	direct reimbursement advance/liquidation
5. Commodities	a) AID direct procurement b) HC procurement	direct payment direct reimbursement
6. Publication/ Documentation	a) HC contract/procurement b) HC contract/procurement	direct reimbursement advance/liquidation
7. Irrigation Repairs	HC contracting/procurement	direct reimbursement
8. Other Cost	a) HC contract/procurement b) AID direct contract/ procurement	direct reimbursement direct payment

D. Financial Analysis

MAF and its affiliated agencies follow standardized GOP procedures which have been deemed to be adequate for numerous other USAID funded activities. The specific details of these organization's activities under this Project will be more clearly defined when implementation of the Project begins. When the Project activities of MAF and its affiliated agencies become specifically defined, their financial capabilities will be assessed in relation to project needs.

1. An analysis of the financial capabilities of NIA's central office has been completed. These capabilities were found to be adequate. Since NIA's regional and local offices follow centralized procedures, it is assumed that their financial capabilities will also be adequate. However, the capabilities of these offices will be assessed on a sample basis once those selected for project implementation are identified.
2. The financial capabilities of potential NGO subgrantees will be assessed prior to their being awarded subgrants. Some of these NGO's may already be pre-qualified as subgrantees because of their involvement with USAID in other programs.

E. Audit/Accounting Review

1. Accounting reviews have been or will be conducted of the participants in this project as a part of the analysis of their financial capabilities discussed above.
2. Audit coverage will be provided by USAID's Office of the Regional Inspector General, the GOP's Commission on Audit, and the NGOs' external auditors. However, because of the size and duration of this project, it has been determined that additional audit coverage may be needed. Accordingly, funds have been provided for a mid-point and final audit review by an independent CPA firm. It is anticipated that such reviews will cover the financial and compliance aspects of the projects.

F. Evaluation Plan

The nature of the Project demands frequent and thorough evaluation of the Project's major components and their respective subprojects. Two kinds of evaluations will be conducted: process evaluations scheduled early in the project life cycle, and combined impact and strategic evaluation(s) conducted near the PACD. The underlying theme of the process evaluations is whether the institutional and organizational arrangements designed to implement the Project are functional, while the focus of the impact/strategic evaluation(s) is on the effects of the project and the long-term sustainability of the policy changes. Details of the evaluation plan and its foci are discussed below.

1. First Process Evaluation

The first process evaluation is scheduled between the end of the first year and the beginning of the second year. It will focus on implementation procedures of the Market Development Component. The purpose of the evaluation is to determine whether the institutional and organizational structures in the Mission and implementing agencies designed to manage the series of studies and technical assistance are in place and functional. It will look at the funds flow mechanisms between USAID and the ultimate recipients, at the contracting procedures and other structural constraints to implementation. Of major concern will be the linkages of the results of the studies (fertilizer, grains, etc.) and the creation of action programs. The assessment will further assess the need for redesign efforts.

2. Second Process Evaluation

The second process evaluation scheduled after the second year will focus on similar questions addressed in the first evaluation. However, the subprojects to be assessed are the following:

- a. Agricultural Research and Extension
- b. Improved Management Services of MAF
- c. Economic Analysis and Planning
- d. Agricultural Statistics

The primary reason for later process evaluation of these subprojects is that their gestation period is expected to take longer than that of activities covered by the Market Development Component.

3. Impact Evaluation

Towards the end of the Project, an impact evaluation will be conducted, to assess the aggregate effect of the Project on agricultural growth. This will focus on the institutional and policy changes and the strategies formulated by the various subprojects, investigating their role in establishing an environment conducive to sustained agricultural productivity and profitability. As such, the evaluation should address the impact of the three major subprojects.

Two approaches are considered at this stage of the project design. Separate impact evaluations can be conducted on each of the components, or an overall assessment of all components can be done. Decision on which approach to take will be made in year 5, depending on the project need.

4. Impact Evaluation: Irrigation Subproject

Evaluation and monitoring needs of the irrigation subproject are addressed separately. The reader is referred to appropriate sections in the Project Description.

IV. Summary of Analyses

A. Technical & Administrative

The AAP Project is composed of several components, some of which are in the nature of substantial subprojects with distinct institutions and others are study related activities oriented towards technical and feasibility analysis. Given the nature of the Project, the summary of findings for both technical and administrative analysis is presented together in this section.

The irrigation subproject constitutes the major initial investment. The NIA's general capability has been assessed and the Department of Institutional Development and the Department of Systems Management have been given particular attention. The assessment was carried out by a design team consisting of USAID staff and international and Philippine consultants. Based upon successful work of the same nature as that being proposed under this Project, the activity has been found to be technically and administratively feasible. The NIA's capability has also been assessed by other external donors (ADB, IBRD) and found to be competent.

The next largest cluster of activities is in the statistics and economic analysis area. The primary recipients of funding support are the MAF, Philippine Universities and private sector groups. The Bureau of Agricultural Economics (BAEcon) of MAF has effectively used USAID assistance in the past. The BAEcon is now undergoing a major reorganization which the Project will support. Based upon (1) current training plans (2) use of modern EDP technology (3) new leadership of BAS, the institution's proposal for overall development and use of external assistance appears feasible. Improvement of agricultural statistics is an area where USAID and USDA Statistical Service have had considerable successful experience. The techniques are fairly routine.

The universities will initially be the next largest user of assistance in the economic area. They have already demonstrated their ability to conduct relevant policy studies, some of which are USAID funded. No technical or administrative problems have prevented the carrying out their efforts. The new Economic Service unit of MAF is just now being formed so it has no track record. Its ability to carry out its mission and use external resources will need to be assessed in light of any large infusion of assistance. Presently, the use of short-term technical assistance, staff development and relatively minor equipment procurement appear well within MAF's capability to administer.

Regarding research and extension, the assessment of research needs is a study well within MAF/PCARRD ability to administer. The extension and demonstration activities may be carried out by the MAF's Regional Integrated Agricultural Research Systems (RIARS) or private groups or voluntary agencies. The RIARS is an on going system which could usefully absorb more resources. The other grantees' capacity would need to be addressed at the time of reviewing their proposals.

The market development cluster contains several specifically identified studies, several potential studies, an institutional development activity and an on-going technical assistance activity. The divestiture studies are with the National Food Authority (NFA), Philippine Cotton (PCC) and Phillippine Dairy Corporation (PDC). The fertilizer study will be sponsored by the Fertilizer and Pesticide Authority (FPA). Technical assistance in grain stabilization will be with the NFA. These agencies can administer their responsibilities regarding these studies and technical assistance as they have handled many such activities in the past. The development of the Market Information System, the crop diversification studies and the private agriculture finance study are identified as activities to be carried out but the technical and administrative assessments must depend upon detailed proposals. The market information system will require particularly careful assessment, as these systems are potentially complicated and require very good communication networks to be useful. The several studies for crop diversification and for agricultural finance will be subject to both USAID and GOP analysis before and during implementation. These studies can be modified during the review and approval process to make them feasible if it should be determined that the original design was not manageable.

3. Economic

Annex F, contains a brief review of the agricultural and general policy environment, conformity of the Project to AID policy and the economics of the project components. The findings were that:

1. The policy environment is essentially conducive to achievement of policy objectives in terms of pronouncements by the new administration. Implementation of these policies is still tentative and subject to change and refinements. The Project itself will have the capability to monitor the policy setting and support the economic analysis that will serve as an input into the development of agricultural policies.
2. The Project's activities are basically in keeping with AID policy. GOP government interventions, either those being assisted, or areas of potential assistance, are in support of farmers or others in the private sector. The basic environment policy is market oriented. Studies which might lead to potential market intervention (grain, fertilizer) are required to consider economic and financial implications, and impact on the private sector.

3. The economic rates of return to project investments have only been estimated for the irrigation investment. ERR's were from 30 to 70 percent for the three systems reviewed. Other project components deal with significant areas of the agricultural economy and should yield positive returns even if unknown, quantitatively. It is not possible to define an income stream directly attributable to the studies component and the production/demonstration activities are not yet developed to the degree that production estimates are known.
4. The Project deals directly in key areas of A.I.D. developmental policy: private sector, formulation of policy and technology transfer relative to these areas.

C. Conformity with Host-Government and AID Policies and Strategies

The basic policy thrust of the current Philippine economic and agricultural programs with which the Project will associate are market oriented. Stronger private sector role in the economy is a cornerstone of the new administration's policy pronouncements. New policy and program directions are based on public dialogue of the issues and more concrete analysis (see Annex F.3. for more detailed analysis of GOP and A.I.D. policies and strategies). Agriculture and the rural sector have been identified as the lead sectors in the economic recovery. The policy development process, proposed thrusts, and strategy for recovery strongly coincide with U.S. assistance policy. The Project will finance studies for 1) the privatization of government owned firms, 2) better policy formulation and 3) technical assistance relative to these areas. These activities are the mainstays of AID's policies for development.

To the extent there is governmental intervention it is in support of better private sector services for farmers. Infrastructural development and maintenance are viewed as legitimate areas of involvement for the public sector. Initial support of farmer irrigation associations by the government is necessary until commercial demand and private sector supply of this type of service evolves. Collection of user fees for irrigation water is a major policy objective of A.I.D. and the GOP. The Project will make investments in research and information dissemination through both the private and public sectors depending upon proprietary and effectiveness criteria.

D. Social Soundness

The Project intends to achieve its goal of improved agricultural productivity and profitability through a series of discrete activities. These include research and feasibility studies, policy analysis, technical assistance, and training and workshops, all of which are expected to have the aggregate effect on determination of policies and formulation of strategies conducive to agricultural

growth. The nature of the Project, prevents the preparation of an all-encompassing social soundness analysis. Each activity is, however, expected to address appropriate social soundness concerns. While each subactivity is being designed, proponent institutions are expected to address the following in addition to the more conventional social soundness issues:

- What are the potential social, economic, political or institutional constraints to conversion of economic research results into agency policies? What are the constraints to converting these policies into implementable and practical strategies?
- What features of the agricultural sector are most likely to be affected by the proposed policy changes and the resultant strategy? What features (structural and organizational) are most threatened by the proposed changes?
- What institutions, groups or individuals would lose access to resources once the new policies and strategies are implemented? Is it within their capacity to circumvent the effects of these policies?
- Who would gain or lose most from these policy changes?
- Is it within the means of the current implementing agency structure to implement policy changes? What institutional arrangements will facilitate conversion of research results into implementable policies?
- In the interest of long-term sustainability, these and related questions should be addressed at the subproject design phase and during implementation. Without functional channels through which subproject outputs can be translated into implemented policies, and if the Project does not address the social, economic, political and institutional constraints to implementation of policy changes, there is little chance that the Project will serve as a vehicle or tool for agricultural growth.

E. Environmental Threshold Decision

The only aspects of the program which would require environmental assessment under existing regulations are: (1) activities to be supported under irrigation system rehabilitation and improved on-farm water use efficiency, and (2) study of the fertilizer industry. It is the judgment of USAID that the rehabilitation of irrigation systems and improvements of on-farm water use will have very little effect on the environment, and the effects these activities have will be positive. The objective of the irrigation program is not construction of new systems but maintenance of existing systems in

the condition originally intended. The National Irrigation Administration has carried out on a small scale, activities of the type to be supported under this Project with no known negative impacts and some positive impacts, particularly in reducing stagnant water which is the habitat of mosquitoes and other pests. A similar large scale program supported by A.I.D. in Pakistan has shown major positive environmental impacts by greatly reducing water logging and salinity in cropland. Furthermore, NIA carries out an environmental analysis before undertaking individual irrigation projects, even small ones. This involves study of the project and its setting, survey of participants and of non-participants in the area and downstream and review by the provincial governor. These analyses applied to the small projects to be financed ensure adequate environmental consideration.

The terms of reference of the fertilizer industry study includes a section on Environmental Impact and Safety of fertilizers in the Philippines. This portion of the study will determine if the present safety measures followed in production, marketing and use of fertilizers are adequate. Specific attention will be given to the environmental effects of fertilizer plant waste disposal, unloading facilities at port areas, and the effects on humans and on fish culture in rice paddies of increased use of fertilizer.

Controlled experimentation and policy studies and analyses are specifically excluded from the requirement for an Initial Environmental Examination (IEE) under Clause 216.2.(c.) (2) (ii) and (iii) of the A.I.D. Handbook. Elements of the Project other than the two cited above, including that of controlled agricultural experimentation provided for on a contingency basis, will fall under one of these two exclusion categories and will be exempt from IEE requirements.

The Initial Environmental Examination for this activity is included in Annex F.6.

Based on the above and Annex F.6., a Negative Threshold Decision, i.e. of no significant impact on the environment, has been made.

V. CONDITIONS PRECEDENT AND COVENANTS

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

A. Conditions Precedent to Initial Disbursement

Prior to first disbursement of A.I.D. project assistance, or the issuance by A.I.D. of documentation pursuant to which the first disbursement will be made, the GOP shall furnish to A.I.D., except as

A.I.D. may otherwise agree in writing, in form and substance satisfactory to A.I.D.:

1. An opinion of counsel acceptable to A.I.D. that the Project Agreement has been duly authorized and/or ratified by and executed on behalf of the GOP and that it constitutes a valid and legally binding obligation of the GOP in accordance with all of its terms;
 2. A statement of the names of the persons authorized to represent the GOP for implementation of the Project and of any additional representatives together with a specimen signature of each person;
 3. Evidence of the formal establishment within the Office of the Deputy Minister of the Ministry of Agriculture and Food (MAF) of a Project Implementation Unit (PIU) and designation of the PIU Director, including a written delegation of the PIU Director's authorities;
 4. Evidence of the formal establishment within the Office of the Assistant Administrator for Systems Operations and Maintenance of the National Irrigation Administration (NIA) of a Project Implementation Unit (PIU) and designation of the PIU Director, including a written delegation of the PIU Director's authorities;
3. Additional Conditions Precedent.
1. Condition Precedent to Disbursement for Certain Policy, Organizational and Institutional Studies and Related Assistance. Prior to disbursement of A.I.D. funds, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for the procurement of contracts providing for, respectively, (i) assistance in the development of agricultural research and extension policies and an agricultural research agenda and in the design of an agricultural research and extension plan; (ii) assistance for the development of an action plan for privatization of publicly-held agriculture-related enterprises; (iii) a study of the feasibility of a private financing institution for agriculture; and (iv) a study of fertilizer development, the GOP shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., approval in writing by the duly authorized representative of MAF for the Project of an A.I.D. Project Implementation Order for Technical Services ("PIO/T") with respect to each such activity authorizing A.I.D. to procure under an A.I.D. direct contract financed under the Grant a contractor to provide for such activity.

Condition Precedent to Disbursement for MAF Activities. Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, in support of MAF activities under the Project, including the

provision of funds for operational support of MAF, but excluding support for the Project activities described in B.1. above, the GOP shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., approval in writing by the duly authorized representative of MAF for the Project of an A.I.D. PIO/T authorizing A.I.D. to procure under an A.I.D. direct contract financed under the Grant a general contractor to provide technical assistance, training and other services to MAF for purposes of the Project.

3. Additional Condition Precedent to Disbursement for Operational Support of MAF. Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for operational support of MAF for Project purposes in any calendar year during the life of the Project, the GOP, in addition to meeting the condition specified in B.2. above, shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D. an implementation plan for operational support of MAF for Project purposes for such calendar year.
4. Condition Precedent to Disbursement for Technical Assistance to NFA. Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for the procurement of a contract to provide technical assistance and training to the National Food Authority ("NFA"), the GOP shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., approval in writing by the duly authorized representative of MAF for the Project of an A.I.D. PIO/T authorizing A.I.D. to procure under an A.I.D. direct contract financed under the Grant a contractor to provide such services.
5. Condition Precedent to Disbursement for NIA Activities. Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, in support of NIA activities under the Project, including the provision of funds for operational support of NIA, the GOP shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., approval in writing by the duly authorized representative of NIA for the Project of an A.I.D. PIO/T authorizing A.I.D. to procure under an A.I.D. direct contract financed under the Grant a personal services contractor to assist the NIA Project Implementation Unit with Project activities.
6. Additional Condition Precedent to Disbursement for Operational Support of NIA. Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for operational support, including support of irrigation system repair and training activities, of

NIA for Project purposes in any calendar year during the life of the Project, the GOP, in addition to meeting the condition specified in B.5. above, shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D. an implementation plan for operational support, including support for irrigation system repair (based on work plans submitted to the concerned Regional Development Councils for consideration) and support for training activities, for the National Irrigation Administration for such calendar year.

7. Condition Precedent to Disbursement for Certain NIA Technical Assistance. Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for technical assistance and other services to NIA under a general contract, the GOP, in addition to meeting the condition specified in B.5. above, shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., approval in writing by the duly authorized representative of NIA for the Project of an A.I.D. PIO/T authorizing A.I.D. to procure under an A.I.D. direct contract financed under the Grant a general contractor to provide technical assistance and other services to NIA for purposes of the Project.

C. Covenants

The General Covenants in the Project Grant Standard Provisions Annex as prescribed by A.I.D. Handbook 3 will be included in the Project Grant Agreement. In addition, the following covenants shall be included:

1. Project Evaluation. A.I.D. and the GOP agree to establish an evaluation program as an integral part of the Project. Except as the parties may otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:
 - a. evaluation of progress toward attainment of the objectives of the Project;
 - b. identification and evaluation of problem areas or constraints which may inhibit such attainment;
 - c. assessment of how such information may be used to help overcome such problems; and
 - d. evaluation, to the degree feasible, of the overall development impact of the Project.

2. Findings and Recommendations of Project Studies. The GOP agrees to give due consideration to and to consult with A.I.D. in connection with actions proposed by the GOP relating to the findings and recommendations of:
 - a. the agricultural research and extension plan referred to in clause (i) of Section B.1; and
 - b. the action plan for privatization of publicly-held agriculture-related enterprises referred to in clause (ii) of Section B.1; and
 - c. the study of fertilizer development referred to in clause (iv) of Section B.1.
3. Market Information. The GOP agrees to cooperate with the private sector to improve the collection and dissemination to farmers of retail price information on basic food commodities, including the regular collection of price information and cooperation with media organizations to expedite and maximize dissemination of such information.
4. Implementation of Certain Project Activities. The GOP agrees that A.I.D may make Grant funds available to Philippine universities, Philippine private agribusiness firms, Philippine or U.S. private voluntary organizations and other Philippine or U.S. non-governmental organizations for certain Project activities pursuant to direct contracts and subproject grant agreements entered into independently by A.I.D. with such organizations, subject to prior approval of MAF.

CONDITIONAL. SUBSEQUENT WORK PLANS SHOULD INCLUDE THE SAME POLICY ITEMS (ASSESSMENT, REFORM AGENDA AND MECHANISMS FOR CONDITIONALITY).

- C. THE DEGREE OF WASHINGTON PARTICIPATION IN THE PROCESS WAS A POINT OF DEBATE IN THE ANPAC. WE DID NOT SEE A NEED FOR FORMAL AID/W APPROVAL OF EACH YEAR'S ACTION PLAN. HOWEVER, THE PP SHOULD PROVIDE THAT CABLES TO AID/W DESCRIBING ANNUAL ACTION PLANS ARRIVE IN REASONABLE TIME TO ALLOW FOR OUR COMMENT BEFORE THEY ARE ACTED UPON. THESE CABLES SHOULD COVER ALL POLICY DIALOGUE ITEMS NOTED ABOVE AND PROVIDE AN OUTLINE OF PLANNED ASSISTANCE ACTIVITIES FOR THE YEAR. WE ALSO EXPECT ANNUAL PROGRAM WEEKS TO DEVOTE CONSIDERABLE ATTENTION TO THE WORK PLANS BECAUSE THEY WILL INVOLVE SO LARGE A PART OF THE DA PROGRAM.

3. FUNDING LEVELS. FUNDING (INCLUDING FY 1986) AVAILABLE FOR THIS PROJECT MAY BE LIMITED BY RECENT U.S. BUDGET DEFICIT REDUCTION LEGISLATION. YOU SHOULD INDICATE WHETHER EACH YEAR'S PROPOSED FUNDING REFLECTS FORWARD FUNDING OF THE PROJECT IN GENERAL OR IF ANNUAL REDUCTIONS COULD BETTER BE TAKEN IN A SPECIFIC COMPONENT (E.G., RESEARCH).

4. AGRICULTURAL RESEARCH: A) THE ANPAC QUESTIONED THE "FIT" BETWEEN THE POLICY COMPONENTS PROPOSED UNDER THE PROJECT AND THE PROVISION OF DA-GENERATED LOCAL CURRENCY FOR AGRICULTURAL RESEARCH OPERATING COSTS. THERE WAS

RECOGNITION AND ACCEPTANCE OF THE VALUE OF THE PROPOSED AGRICULTURAL RESEARCH ACTIVITIES, BUT IT WAS NOT CLEAR THAT THIS COMPONENT BELONGED IN THIS PROJECT. CONSEQUENTLY, MISSION MUST PROVIDE CONVINCING RATIONALE AND PERSUASIVE ARGUMENTS FOR ITS INCLUSION. B) IF INCLUDED IN THE PROJECT, MISSION SHOULD TRY TO COVER ALL OR MOST OF THE RECURRING COSTS OF AGRICULTURAL RESEARCH NEEDS WITH PESOS FROM PL 480 TITLE I OR FROM ESF BUDGET SUPPORT VEHICLES SUCH AS RPSF, BSD, ETC. IF SUCH PESOS ARE NOT AVAILABLE FROM PL 480 OR ESF AT THE TIME OF PP PREPARATION, OR IF THEY ARE AVAILABLE IN INSUFFICIENT AMOUNTS, THEN DA-GENERATED PESOS MAY BE USED TO REPLACE OR AUGMENT PL 480 AND ESF PESOS. HOWEVER, ALL AGRICULTURAL RESEARCH COSTS SHOULD BE MET WITH PL 480 OR ESF PESOS WHEN AND IF SUCH PESOS BECOME AVAILABLE.

5. SUBSECTOR INVESTMENT. DISCUSSION WITH JOHN BLACKTON INDICATED THAT ALL OF THE AREAS IDENTIFIED FOR POSSIBLE SUBSECTOR INVESTMENT OUTLINED IN THE PID ARE NOT LIKELY TO MATERIALIZE. THEREFORE THE ANPAC DID NOT DISCUSS THESE IN DEPTH. WE EXPECT, HOWEVER, THAT THE PP WILL SET UP THE INTERNAL MISSION MECHANISM TO IDENTIFY,

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REVIEW AND APPROVE INVESTMENT SUBSECTORS (INCLUDING,
REFERENCE WHERE APPROPRIATE, TO PLANS FOR BRINGING IN
OUTSIDE TECHNICAL AND DESIGN EXPERTISE). ANNUAL WORK
PLAN CABLES (PARA 2 C ABOVE) SHOULD ALSO OUTLINE PLANNED
SUBSECTOR INVESTMENTS ARMACOST

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 86 to FY 91
Total U.S. Funding 20.0 M
Date Prepared 8/15/86

Project Title & Number Accelerated Agricultural Production (492-0385)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes: [A-1]</p> <p>To restore and accelerate agricultural growth</p>	<p>Measures of Goal Achievement: [A-2]</p> <p>Volume and value of production: Rice and Corn Other Food Crops Feedgrains Non-traditional Exports</p>	<p>[A-3]</p> <ol style="list-style-type: none"> 1. Bureau of Statistics (BAS) Output and Price 2. Production Surveys 3. National Accounts 4. Value of Exports 	<p>Assumptions for achieving goal targets: [A-4]</p> <ol style="list-style-type: none"> 1. Weather not abnormal 2. No international dumping of commodities 3. General macro policy remains favorable for agriculture
<p>Project Purpose [B-1]</p> <p>Increase profitability and productivity in farming</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status: [B-2]</p> <ol style="list-style-type: none"> 1. Yield of major crops trending higher 2. Rising use of purchased inputs 3. Indicators of farm income show increasing welfare 4. Farmers assuming greater share of irrigation management 	<p>[B-3]</p> <ol style="list-style-type: none"> 1. BAS area and yield reports 2. Fertilizer and Pesticide Authority records on input use 3. Surveys on Farm prices production and household expenditures 4. National Irrigation Authority (NIA) records on farmer managed system 	<p>Assumptions for achieving purpose: [B-4]</p> <ol style="list-style-type: none"> 1. No world crisis in agrochemical inputs 2. That price level for non-agricultural products remain stable - not adversely affecting farm income

LOGICAL FRAMEWORK CONTINUED

Project Outputs: [C-1]	Magnitude of Outputs: [C-2]	[C-3]	Assumptions for achieving outputs: [C-4]																																
<p>1. Farmer Organizations Managing Irrigation Systems</p> <p>2. Farm Production Demonstrations</p> <p>3. Strategic Planning Studies</p> <p>4. A Market News Services</p>	<p>1. Approx. 18 National Systems Approx. 380 Communal Systems</p> <p>2. To determine during implementation</p> <p>3. One each for: - Research - Fertilizer - Private Agr. Finance Three for Privatization continuous for: - Grain Price Stabilization - Crop Diversification</p> <p>4. One Government System and Private Pilot Program</p> <p>5. Rice and Corn Production Yield Surveys - Stock surveys - Price Series/Market Info - Annual Statistical Handbook</p> <p>6. Commodity Situation Reports - Assessments of Technology - Policy Assessments - Assessment of Consumption & Nutrition (Demand)</p>	<p>1. NIA Records</p> <p>2. Project Reports</p> <p>3. Agency and Project Records Evaluation</p> <p>4. Users Surveys Publications Records</p>	<p>Same as above and that orders of priority for outputs not changed by authorities higher than Project personnel</p>																																
<p>Project Inputs: [D-1]</p> <p>US \$20,000,000</p> <p>GOP/NGO/UNIV.</p> <p>In-kind and operating budgets equivalent to \$7,025,000.</p>	<p>Implementation Target (Type and Quantity: [D-2])</p> <table border="1" data-bbox="598 1098 1209 1463"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">(\$000)</th> </tr> <tr> <th>AID</th> <th>GOP/NGO/UNIV</th> </tr> </thead> <tbody> <tr> <td>Tech. Asst.</td> <td>3,670</td> <td></td> </tr> <tr> <td>Training</td> <td>1,155</td> <td>406</td> </tr> <tr> <td>Study Costs</td> <td>1,710</td> <td>601</td> </tr> <tr> <td>Operating Costs</td> <td>6,355</td> <td>3,219</td> </tr> <tr> <td>Commodities</td> <td>365</td> <td>128</td> </tr> <tr> <td>Publication</td> <td>642</td> <td>226</td> </tr> <tr> <td>Irrigation</td> <td>5,378</td> <td>1,570</td> </tr> <tr> <td>Other Costs</td> <td>725</td> <td>875</td> </tr> <tr> <td>TOTAL</td> <td>20,000</td> <td>7,025</td> </tr> </tbody> </table> <p>*Includes 5,000 reserved for research.</p>		(\$000)		AID	GOP/NGO/UNIV	Tech. Asst.	3,670		Training	1,155	406	Study Costs	1,710	601	Operating Costs	6,355	3,219	Commodities	365	128	Publication	642	226	Irrigation	5,378	1,570	Other Costs	725	875	TOTAL	20,000	7,025	<p>[D-3]</p> <p>- Project records - Evaluation</p>	<p>Assumptions for providing inputs: [D-4]</p> <p>- Price level remain stable - Funds forthcoming</p>
	(\$000)																																		
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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 ESP.

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

A. GENERAL CRITERIA FOR PROJECT

Yes

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

1. Congressional Notification submitted August 13, 1986 and expired on August 28, 1986 without comment.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$500,000, 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?

2. (a) Yes
(b) Yes

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?

- 3 No further legislative action is required.

4. FAA Sec. 611(b); FY 1986 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.) 4. 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? 5. Yes
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. 6. 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. 7. (a) The project will encourage private agricultural sector trade. A portion of this trade may be for export. (b) The project will support privatization of government owned corporations. (c) N.A. (d) The project will finance policy research that will support the Government of the Philippines initiatives to establish an economic environment in which free market forces will govern. (e) The project will provide Technical assistance and training to a wide array of agricultural sector entities to improve their technical efficiencies. (f) N.A.

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).
8. Private U.S. contractors will be engaged to provide technical assistance to the Ministry of Agriculture and affiliated Services and the National Irrigation Administration. The Project also contemplates the study of a private agricultural financing institution, which may include U.S. private investment.
9. FAA Sec. 612(b), 636(h); FY-1986 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.
9. N.A.
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?
10. N.A.
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
11. Yes
12. FY 1986 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?
12. 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 take into consideration the problem of the destruction of tropical forests?
13. Yes
N.A.
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)?
14. N.A.
15. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?
15. No
16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?
16. No funds are set aside for these purpose.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance
Project Criteria

- a. FAA Sec. 102(a), 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 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?
- (a) Through Irrigation Associations' more than half of this projects resources will be used to assist small scale farmers with irrigated land to improve water and farm management. Labor intensive production techniques are the norm. Increased farm input and income will have a multiplier effect throughout the rural areas. Farm production demonstration will help poor farmers.
- (b) See (c) below
- (c) Irrigation Associations are a type of self help organization.
- (d) Most of the community organizers of irrigation association are women and some members of the association are women. Both groups will benefit from training funded by the project.
- (e) N.A.

- b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? **b. 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)? **c. 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)? **d. Yes**
- e. 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? **e. Yes**

65

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

f. 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.

g. The project recognizes the needs of poor farmers as expressed through the water users' associations and conveyed through extension agents and local irrigation and agriculture services for irrigation improvements and improved agricultural technology. Local Universities will participate in the process of responding to these needs and a long term collaborative relationship between the universities and the government will be fostered. The project will provide training to personnel of the Ministry of Agriculture and National Irrigation Authority to enhance the capabilities of these institutions.

2. Development Assistance Project
Criteria (Loans Only)

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

3. Economic Support Fund Project
Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA? a. N.A.
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? b. N.A.
- c. ISDCA of 1985 Sec. 207. 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 c. N.A.

that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

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?

d. N.A.

5C(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. <u>FAA Sec. 602.</u> Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? | 1. Commodities and services will be procured in accordance with standard AID policies and procedures. |
| 2. <u>FAA Sec. 604(a).</u> Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?? | 2. Procurement can be from the U.S. and the Philippines. |
| 3. <u>FAA Sec. 604(d).</u> 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? | 3. N.A. |
| 4. <u>FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a).</u> 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.) | 4. N.A. |

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA 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?
5. No
- 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?
6. 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?
7. Yes
- 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? 8. Yes
9. FY 1986 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? 9. Yes, they will

B. Construction

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

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? 1. N.A.

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? 2. 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? 3. Yes.

4. Will arrangements preclude use of financing:
 - a. FAA Sec. 104(f); FY 1986. Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice 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 (1) Yes (2) Yes

- sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? (3) Yes
- b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? b. Yes
- c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? c. Yes
- d. 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? d. Yes
- e. FAA Sec. 662. For CIA activities? e. Yes
- f. 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? f. Yes

- g. FY 1986 Continuing Resolution, Sec. 503. g. Yes
To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?
- h. FY 1986 Continuing Resolution, Sec. 505. h. Yes
To pay U.N. assessments, arrearages or dues?
- i. FY 1986 Continuing Resolution, Sec. 506. i. Yes
To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?
- j. FY 1986 Continuing Resolution, Sec. 510. j. Yes
To finance the export of nuclear equipment, fuel, or technology?
- k. FY 1986 Continuing Resolution, Sec. 511. k. Yes
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?
- l. FY 1986 Continuing Resolution, Sec. 516. l. Yes ,
To be used for publicity or propaganda purposes within U.S. not authorized by Congress?



REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

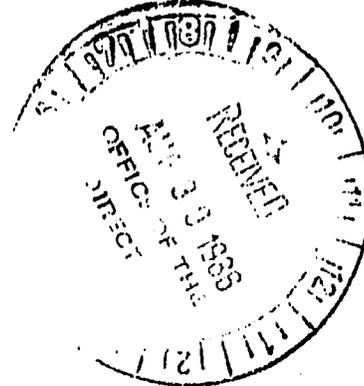
NEDA sa Pasig, Amber Avenue
Pasig, Metro Manila

ANNEX D

Cable Address: NEDAPHIL
P.O. Box 419, Greenhills
Tels. 673-50-31 to 50

29 August 1986

Mr. Frederick W. Schieck
Director, USAID Mission
M a n i l a



Dear Mr. Schieck,

We are pleased to endorse the request of the Ministry of Agriculture and Food (MAF), through Minister Ramon V. Mitra's letter of 20 August 1986, copy attached, for USAID grant assistance in the amount of \$20.0 million to finance the implementation of the five-year (1987-1991) Accelerated Agricultural Production (AAP) Project.

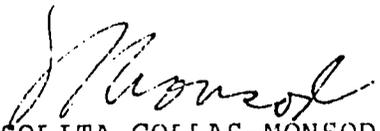
The said project aims to increase the profitability and productivity of agricultural production by improving governmental support services for farmers; identifying and supporting means of creating more efficient markets for agricultural inputs and products; and improving the basis of agricultural policy and program formulation.

The lead agency for implementation of this project will be the Ministry of Agriculture and Food, with the participation of the National Irrigation Administration (NIA), private organizations, and universities.

To support the said project, counterpart contribution in the amounts of \$6.3 million and \$.725 million will be provided by the Government of the Philippines (GOP) and non-government organizations (NGO's) and universities, respectively.

Thank you for your continued support to our national development efforts.

Sincerely yours,


SOLITA COLLAS-MONSOD
Minister of Economic Planning &
Director-General

Attachment: a/s

75



Republic of the Philippines
MINISTRY OF AGRICULTURE AND FOOD
 Office of the Minister *MAF-R3-113-8* *8-29-86*
 Elliptical Road, Diliman, Quezon City

20 August 1986

Mr. Frederic Schieck
 Mission Director
 USAID, Magsaysay Building
 Roxas Boulevard, Manila

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Dear Mr. Schieck:

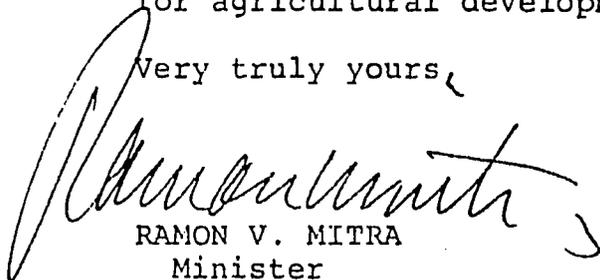
I would like to request for a US\$20.0 million grant from the USAID under the proposed Accelerated Agricultural Production (AAP) Program for 1987.

This US\$20.0 million grant shall be used for the following purposes:

	<u>(In Million US\$)</u>
o Agricultural Research and Extension	5.000
o Irrigation	8.053
o Market Information	0.515
o Crop Diversification	0.700
o Economic Analysis	.925
o Others	4.807
Total	<u>20.000</u>

We hope that the USAID acknowledges the importance accorded by this new administration to this grant and that your office shall continue to support our programs for agricultural development.

Very truly yours,


 RAMON V. MITRA
 Minister

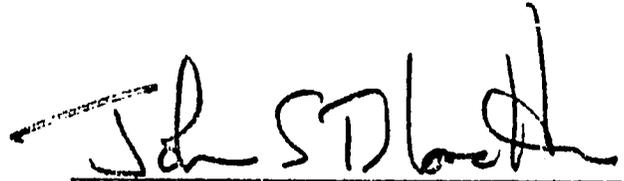
cc: Minister Solita Monsod

ACTION TAKEN	
MAN _____	Other _____
Type _____	No. _____
Date _____	Initials _____

ANNEX E

CERTIFICATION PURSUANT TO SECTION 611 (e)
OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, JOHN S. BLACKTON, the acting principal officer of the Agency for International Development in the Philippines, having taken into account, among other things, the maintenance and utilization of projects in the Philippines previously financed or assisted by the United States, do hereby certify that in my judgment, the Philippines has both the financial capability and the human resources to effectively utilize resources from the proposed Accelerated Agricultural Production Project and to maintain facilities benefiting from project assistance.



John S. Blackton
Acting Director, USAID/Philippines

70 Aug 86
Date

ANNEX F

PROJECT ANALYSISANNEX F.1MACROECONOMIC SITUATION

The country is in the midst of a severe recession. Foreign debt tops \$26 billion with debt servicing without rescheduling, approximating 50 percent of export earnings (Figure 1). Even with the new measures to reduce expenditures and increase revenues, the government is still facing a P28 billion or \$1.3 billion deficit in its budget. Real GDP has declined by 10 percent during the last two years. Real per capita GDP in 1985 was down 14 percent from 1983 and was at the level of ten years ago (Figures 2 and 3). Widespread unemployment and declining incomes have reduced the consumers' ability to buy food and other essentials, arresting the rather steady long-term uptrend in consumer expenditures for goods and services. About 70 percent of the population is living in poverty. The general situation is reflected in Table 1 below:

Table 1. Gross Domestic Product (Billion Pesos, 1972 Pesos)

	1970	1983*		1985**	
	Total	Total	Annual % Growth	Total	Annual % Growth
Consumption Expenditure	37.5	65.3	4.4	66.2	0.7
Capital Formation	9.9	24.9	7.4	12.6	-28.9
Government Expenditure	4.3	8.7	5.6	8.2	-2.9
Exports	8.5	19.3	6.5	19.4	0.3
Imports	-10.0	-21.7	6.1	-14.0	-19.7
Total GDP***	50.8	99.9	5.4	90.5	-4.9
	====	=====	===	====	====

* Average annual growth rate: 1970 to 1983.

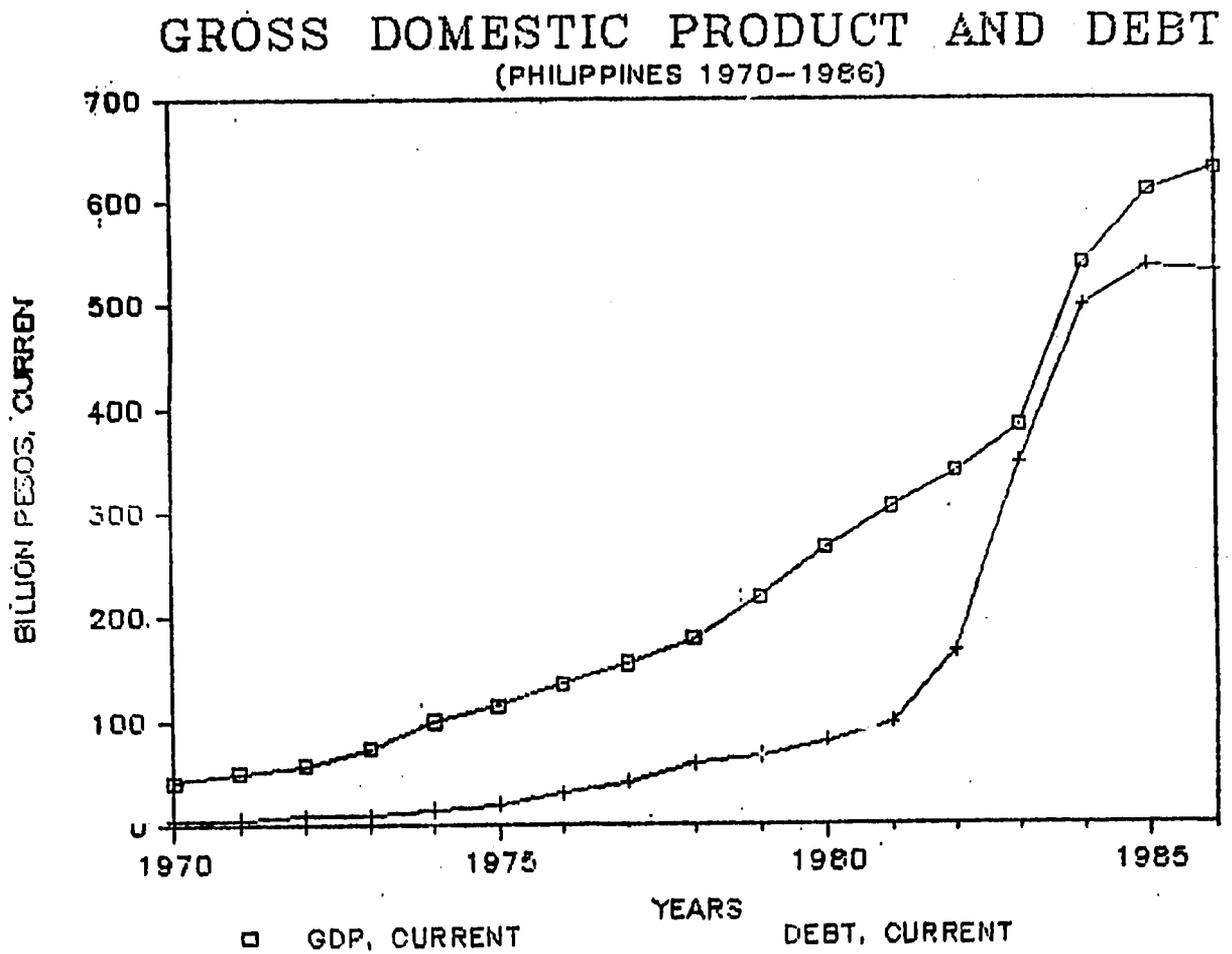
** Average annual growth rate: 1983 to 1985.

*** Figures do not tally with totals due to statistical discrepancy.

Source of Basic Data: NEDA

The current economic crisis resulted from a confluence of factors, including an import substitution strategy which overly protected manufacturing and industry. Capital intensive urban industries received substantial production incentives and increasing government protection from imports while the agriculture sector and small industries suffered from low investment and inadequate production incentives. An inflexible and overvalued exchange rate policy coupled with declines in prices of major agricultural export commodities, reduced the incentives and earnings of foreign exchange (Figures 4, 5, and 6). In spite of these

Figure 1



Source of Basic Data: NEDA, "Philippine Statistical Yearbook".

Figure 2

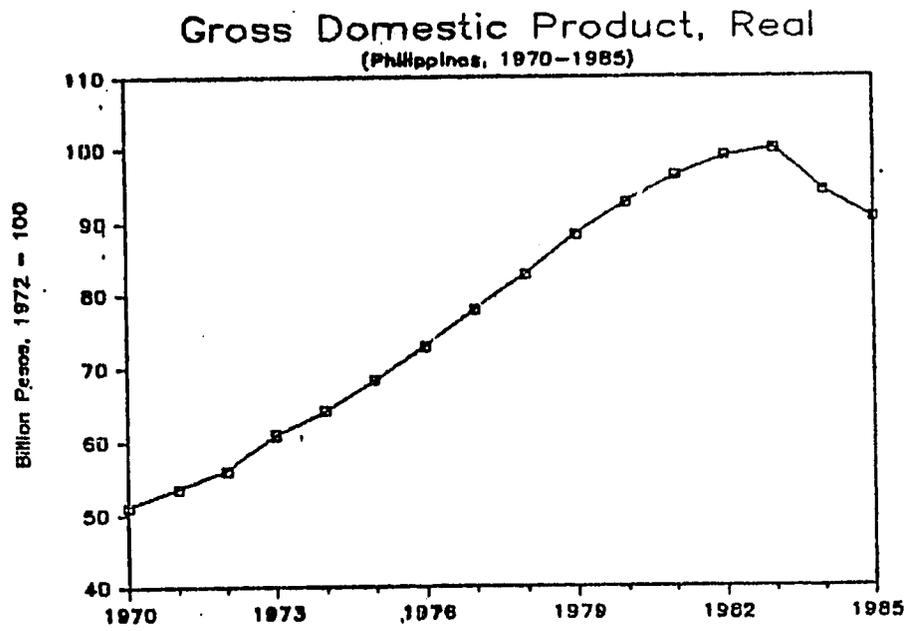
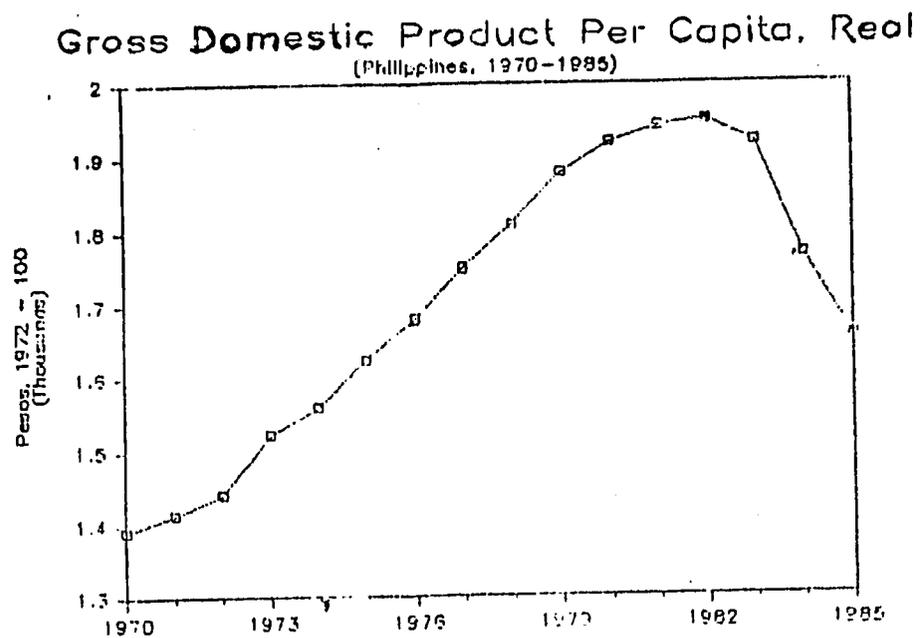


Figure 3



Source of Basic Data: NEDA, "Philippine Statistical Yearbook", (various issues)

Figure 4

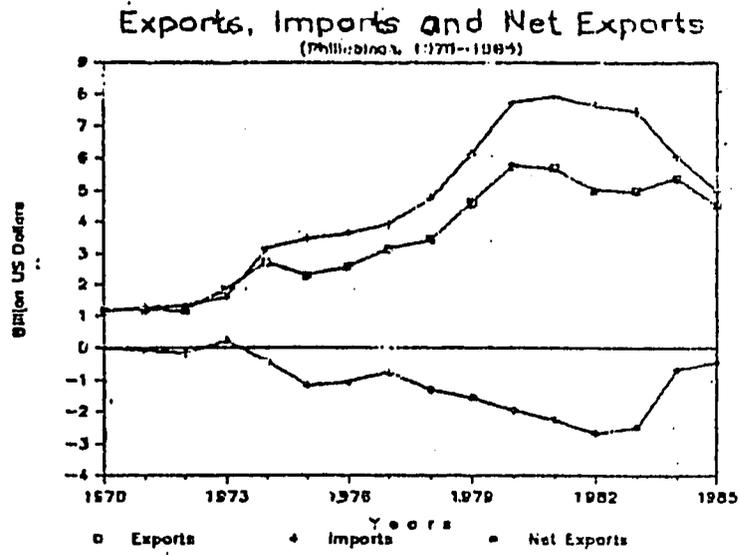


Figure 5

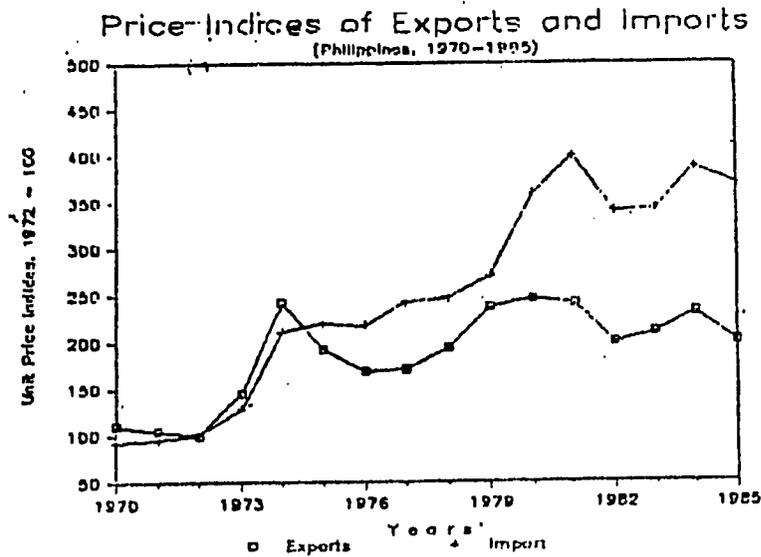
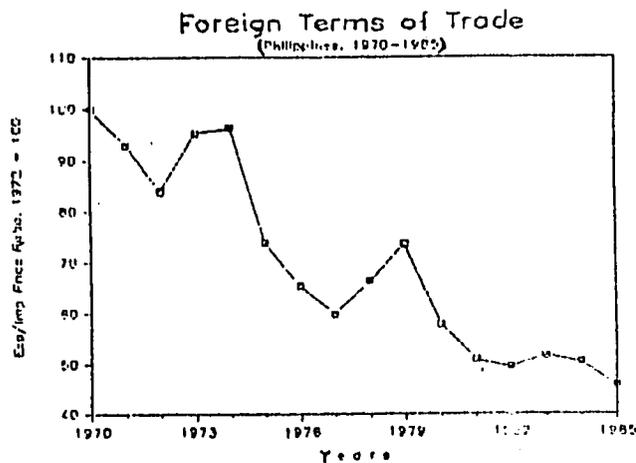


Figure 6



policies, the country's rich natural resource base and availability of relatively low cost credit from foreign banks enabled the Philippines to maintain respectable growth rates until the late 1970s.

The previous government's misguided and rent seeking economic policies exacerbated these long-standing structural problems. The policies tended to concentrate economic and political power in the hands of the government and selected individuals in the private sector. Increased GOI intervention in the markets for goods and financial assets and monopolistic structures in key sectors of the economy promoted large-scale waste, inefficiency, mismanagement and corruption.

The country became more and more vulnerable to external shocks. As primarily an exporter of agricultural commodities and heavily dependent importer of fuel, the Philippines had been long sensitive to changes in international markets. The further growth of an import-dependent industrial sector and the large build-up of foreign debt markedly increased the country's vulnerability.

During the relatively short tenure of the present administration, it has made progress in lifting Government controls on the market and on trade restrictions and has taken measures to reduce taxes and subsidies relating to major commodities. The sharply lower inflation rate and some reduction in interest rates is largely a result of the cut back in economic activity, reduced fuel oil costs, and increased market supplies of grain. The latter was caused by delayed imports of rice and increased production of rice and corn in 1985/86.

The new Government of the Philippines (GOP) has issued policy pronouncements which have a strong private enterprise orientation. The private sector is to serve as the prime mover in national economic recovery, even though the GOP may do some initial pump priming of the economy through the public sector. The GOP is deeply committed to implementing fundamental economic reforms. It aims to reduce the negative role of government, dismantle "crony" monopolies and privileges, effect trade liberalization, divest itself of public corporations and nonproductive assets, and maintain sound monetary and fiscal policies. The major development priorities are to stimulate rural development and increase agricultural output and rural employment.

The Task Ahead. Currently depressed economic activity and some less obvious unstabilizing economic imbalances generated over the past decade present an enormous task for the economy. Although the Administration is taking measures to correct these economic imbalances, it is also under pressure to correct inherited institutional and political problems of long standing. These problems relate to political instability and insurgency, misguided policies for agriculture and business, non-competitive capitalism, a favored and inefficient industrial sector and heavy government involvement in private sector activities through market regulation and direct ownership of corporations and financial institutions.

The new Administration's goals are to recover from the slump in economic activity since 1983 and initiate programs for sustainable and equitable longer-term economic development. The private sector will be the prime mover in a generally free-market economy. Programs will emphasize initiative, productivity and industry. The first priority of program measures will be to expand agriculture and stimulate rural development. These priorities are consistent with goals to further accelerate agricultural output and rural employment and thus provide quick relief to widespread unemployment and poverty. Policy/program changes are scheduled to correct strong program biases against agriculture. For example, progress has been achieved in dismantling monopoly control in production, pricing and trade in such important commodities as sugar, coconut products, grains and feedstuff. Export taxes, which penalize producers and exporters, have been reduced, except for logs. Ceiling prices on grains and feedstuff, have been removed and rigid controls have been liberalized in export/import trade in grains and feedstuff, coconut products and sugar. The persistent downtrend in the value of the peso relative to the US dollar seems to have been arrested. However, current estimates suggest that the peso may still be overvalued by as much as 15 to 20 percent. The overvalued exchange rate penalizes export crops and encourages imports of competing agricultural products as well as other goods. To partially offset the remaining program biases against agriculture, price supports are scheduled to be continued for grains and some limitations are scheduled on competitive grain imports by imposing higher tariffs.

Annex F.2

AGRICULTURAL SECTOR

Declining profitability and productivity (because of unfavorable government policies and counterproductive market interventions), low export earnings, poor infrastructure and public services, and reductions in harvested area have reduced production and family incomes in the sector. This decline in agricultural incomes have been accompanied by an increasing incidence of unemployment and poverty. Average rural family income is only 40 percent of urban family income --a drop from the 60 percent figure in 1970. Three fourths of the poorest households in the country are in the rural areas and the incidence of poverty is twice that in the urban centers (see the 1986-90 CDSS for a more detailed discussion of the performance of the agriculture sector).

In spite of the unfavorable policy environment and poverty conditions, agriculture provides the greatest potential for overall economic recovery. It has been singled out by the Aquino administration as the engine of growth and focus of the GOP's programs and prospects for private investment. An assessment of the potentials for growth in the sector indicate that with policy environment favorable to more profitable production, improved public sector infrastructure and technical services, and an emphasis on promotion of private sector investment into marketing services will yield both short term impacts and sustainable growth.

1. Importance of the Agricultural Sector.

Agriculture remains the dominant sector of the economy. It is the food producer, a provider of raw materials for the processing industries, the most important source of employment and a major contributor to foreign exchange earnings. An estimated 70 percent of the population live in rural areas, of whom 85 percent (approximately half of the total labor force) depend directly upon agriculture for their livelihood. Farming and related service industries employ about 75 percent of the employed workforce and produce about 85 to 90 percent of food needs. Agriculture, including livestock, forestry and fisheries, contributes approximately one fourth of the GDP (Figure 1), and 40 percent of GDP when agriculture-based processing and manufacturing are included. Growth or decline of the economy is therefore closely related to the agricultural sector (Figure 2). While sugar and copra dominate agricultural export earnings, rice and corn production are key determinants of overall agricultural growth. Rice and corn are the main food and feed crops.

--Production. The volume of production which doubled during the decade of the 1970s has declined since 1980 as overall yields have declined and area harvested has stagnated (Figure 3). The loss of growth and subsequent decline in agricultural production since crop year 1980-81 was due primarily to agricultural

Figure 1

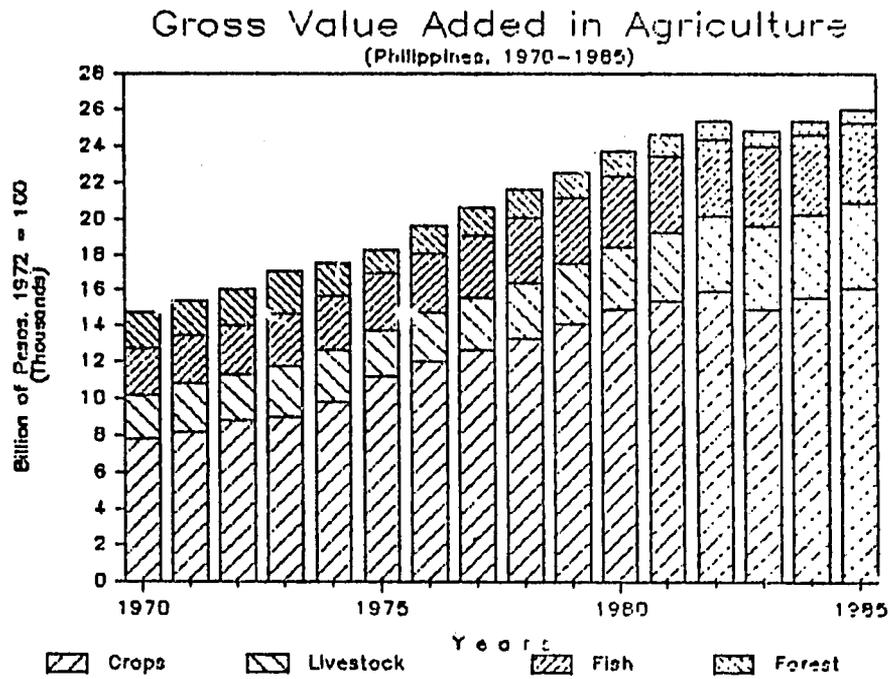
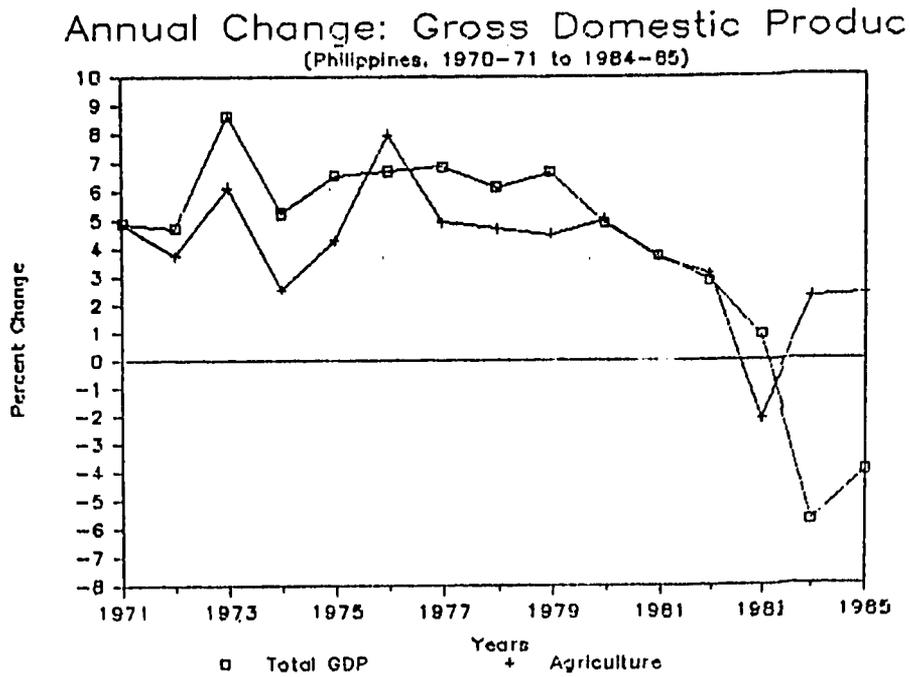


Figure 2

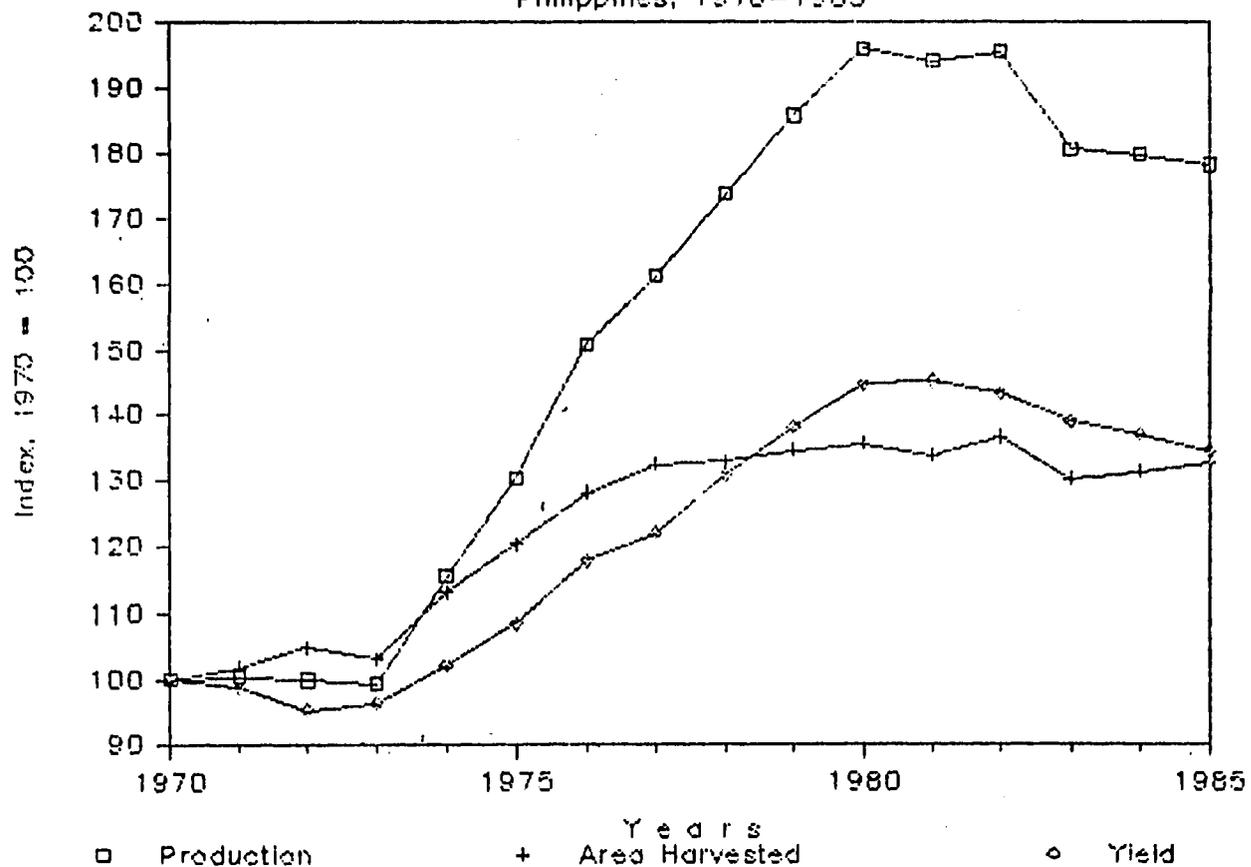


Source of Basic Data: NEDA, "Philippine Statistical Yearbook", (various issues).

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Figure 3

Agricultural Production Indices Philippines, 1970-1985



Source of Basic Data: Bureau of Agricultural Economics

policies rather than technical problems. For more than two decades government policies have favored manufacturing and industrial development at the expense of agriculture. Both the government and private sectors recognize that returns to agriculture have been severely depressed by: 1) heavy taxes on major export crops; 2) trade and exchange controls that favored industry and increased costs to the farmer; and 3) low food-price policy financed by reduced returns to farmers. The performance of the crops sector is shown in Table 1 below:

Table 1. Crop Output, Area and Yields
(Index, 1977/78 = 100)

	1970/71	1979/80		1984/85	
	Total	Total	Annual % Growth	Total	Annual % Growth
Production (1000 MT)	17,633	28,798	5.6	26,100	-2.0
Index	64.1	108.2	6.0	94.5	-2.6
Area harvested Hectares (1000)	9,022	11,624	2.9	11,170	-0.8
Index	79.0	101.8	2.9	97.8	-0.8
Yield Per Hectare Kilograms	1.95	2.48	2.7	2.4	-1.2
index	81.1	106.3	3.0	96.6	-1.9

Source of Basic Data: BAEcon

--Value of Production. In terms of value added, land usage and employment in the agriculture sector, crops predominate over other subsectors. Crops constitute 62 percent of which more than 50 percent is food crops (Figures 4 and 5). During the period 1970-85, crop and livestock value added doubled, fisheries increased by 70 percent while forestry has steadily declined to a third of its previous contribution. Prices received by farmers for both domestic food and export agricultural products have steadily declined in real terms since mid-1970s. Agriculture's contribution to foreign exchange earnings, though significant, is well below what its international comparative advantage would suggest. While 30 percent of total value of merchandise exports is derived from agricultural commodities, the traditional exports of sugar and coconuts, (commodities which face highly volatile and declining world markets) account for the majority of the sector's contribution. Agricultural export earnings have also declined, both in nominal and real terms

Figure 4

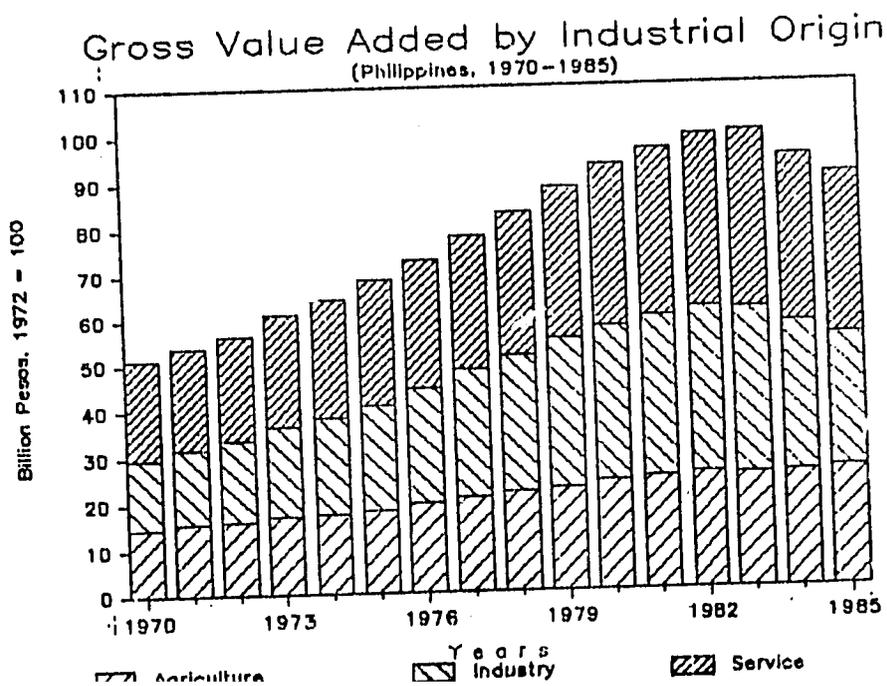
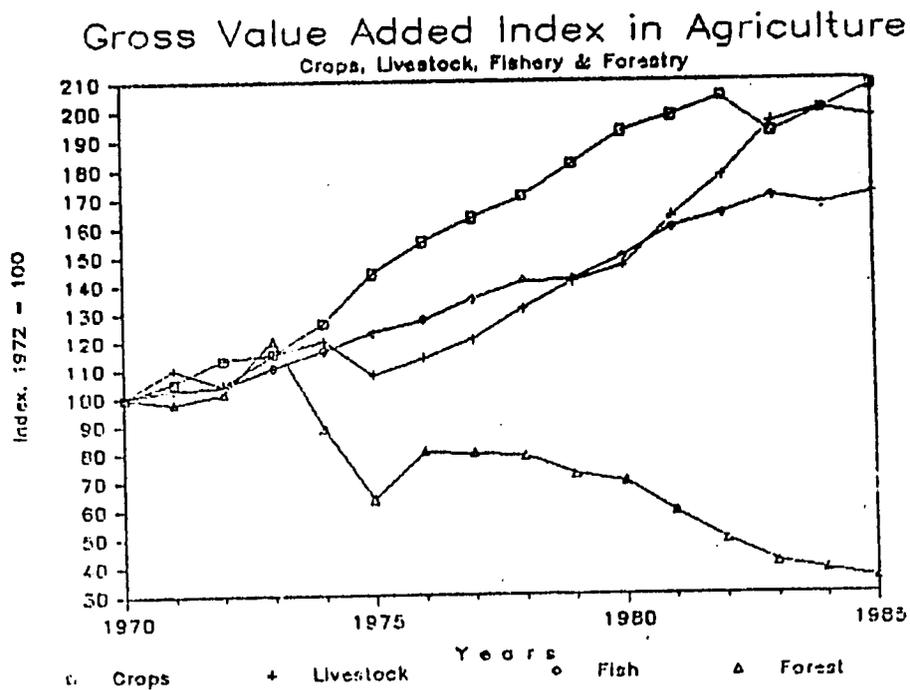


Figure 5



Source of Basic Data: NEDA, "Philippine Statistical Yearbook", (various issues).

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since 1980, with agriculture's share of total value of merchandise exports falling from 68 percent in 1972 to 34 percent in 1985 (Figures 6 and 7).

2. Prospects for Agricultural Growth

The potentials for growth in the agricultural sector and its contribution to overall economic recovery will depend upon the: 1) demands in the domestic and foreign markets for agricultural commodities; 2) comparative advantage of Philippine farm production. In general, the earnings capability of agriculture is better than the other sectors in terms of potential increases in demand, net foreign exchange and employment generation.

A population of 55 million people growing at the rate of 2.5 percent per year assures a need, if not an effective demand, for more food per year. If family incomes improve at a modest 2 percent per year and half of the additional income is spent on food, population and income would account for annual increases of around 3 to 4 percent in food demand in the domestic market alone. In addition, there is the export market for raw and finished agricultural, fisheries and forestry products.

The Philippines is a net importer of grains (Figure 8). Incremental needs also exist for fruits, vegetables and some meat and poultry products. These products are labor intensive. Moreover, livestock products require feed which can largely be produced locally. For the next decade, and perhaps longer, the domestic demand for food (plus export) may very well exceed a sustainable growth rate in agricultural production. The critical question is whether physical, agronomic, technical and market potentials exist to exploit the demand. The potentials appear good. The challenge to the agricultural support system - and to the project - is to provide an environment whereby farmers can realize the potentials.

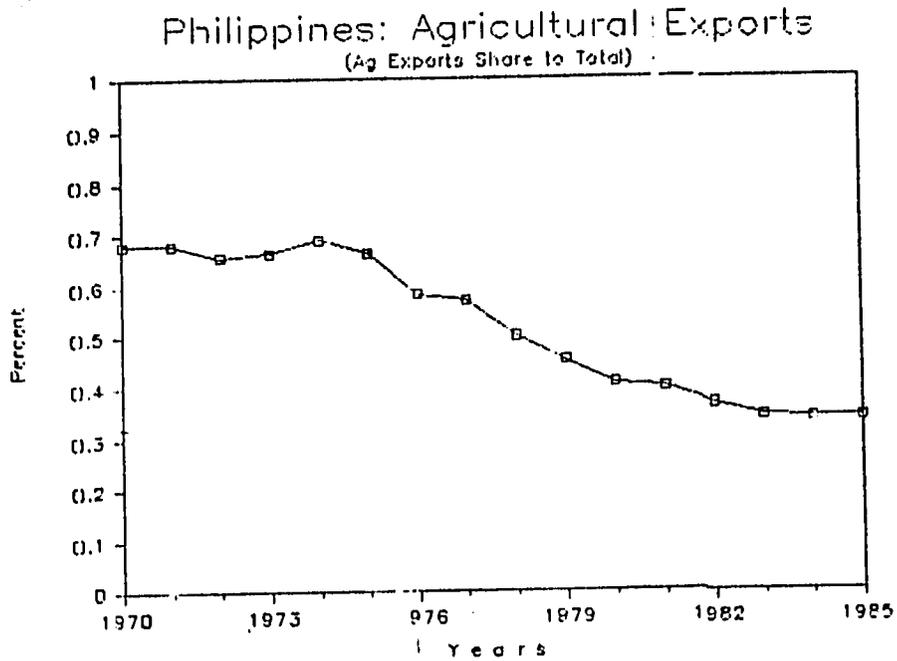
The most apparent need is for increased production of cereal and feedgrains. Productivity in agriculture is low compared to other SEAsian countries. Philippines and other SEAsian countries' cereal yields were approximately the same in the mid-1960s. Since then SEAsia has doubled overall cereal yields while the Philippines has increased yields by 60 percent (Figures 9, 10, and 11).

In the important crops sector, output increased about 6 percent per year in the 1970s from depressed levels early in the decade. Rapid expansion, however, has been attributed to increases in yields and in area planted. From 1979/80 to 1984/85, crop output declined by an average of 2 percent annually with declining yields and some cut back in area harvested. Potential yields for corn on good land are reported as high as 4 to 6 times current yields while potentials for rice are at least twice current levels. Figures 12, 13, 14, and 15 show the current yields for corn and palay (1.0 and 2.5, respectively).

Figure 6

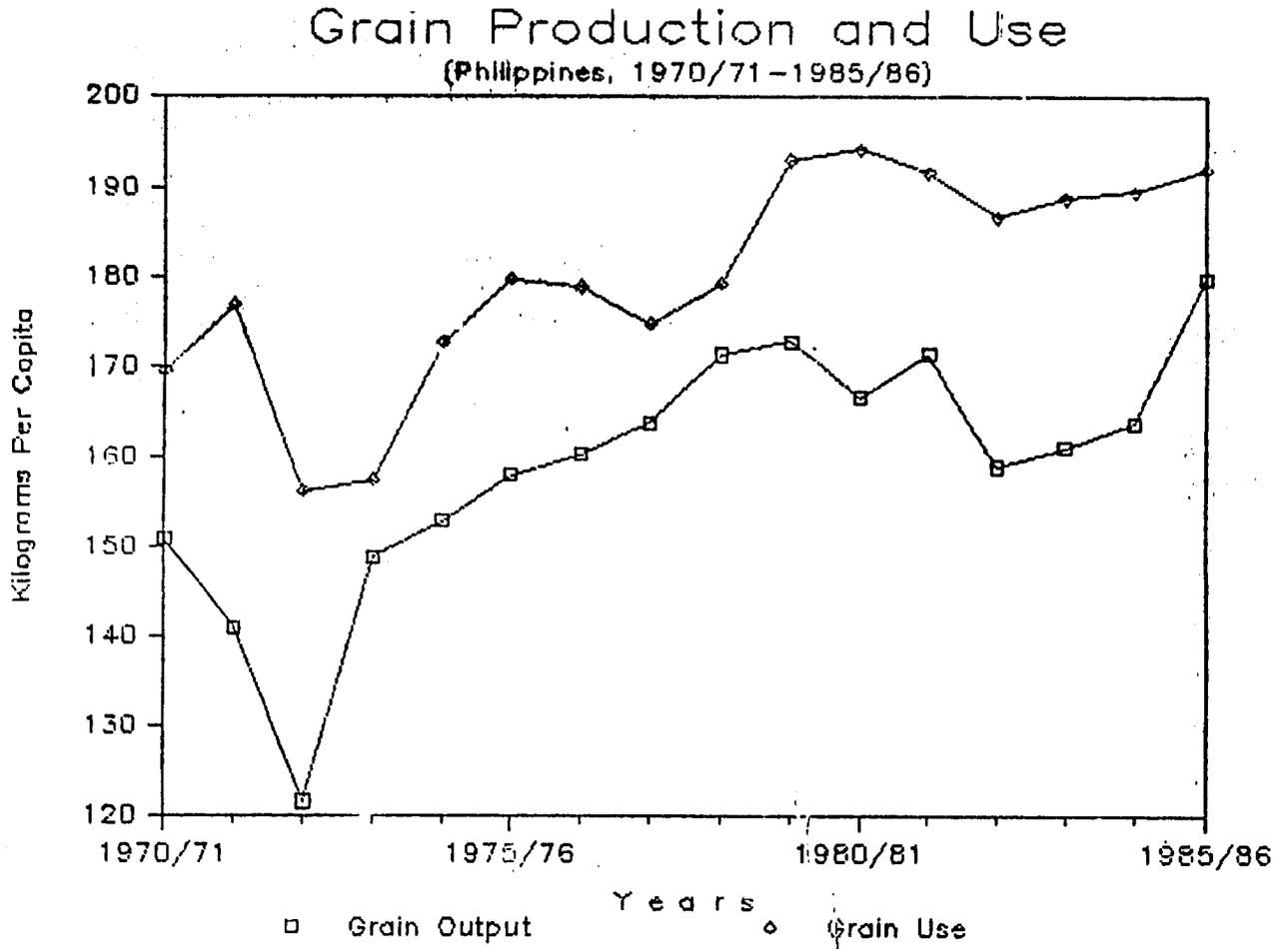


Figure 7



Source of Basic Data: NEDA, "Philippine Statistical Yearbook", (various issues).

Figure 8



Sources of Basic Data: Bureau of Agricultural Economics (BAEcon)
National Census & Statistics Office (NCSO)

Figure 9.

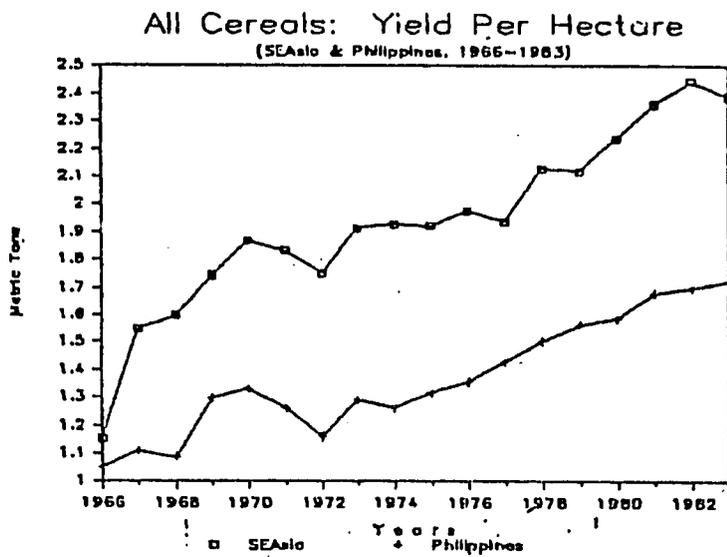


Figure 10

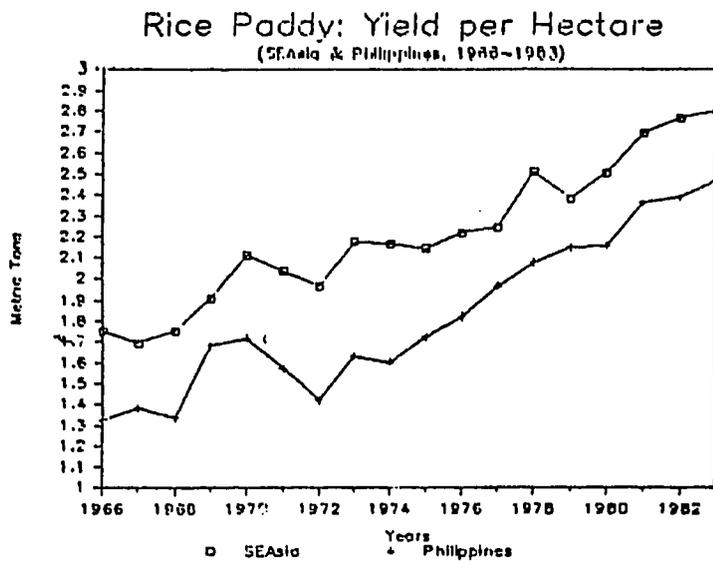
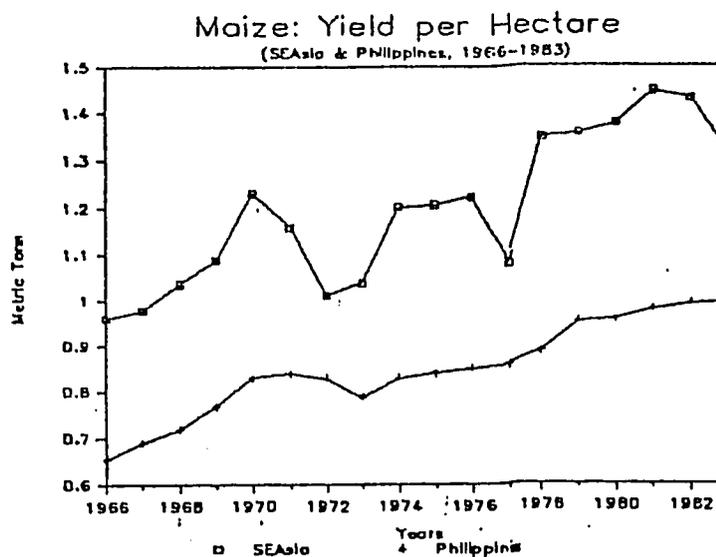


Figure 11



Source of Basic Data: ADB, "Agriculture in Asia", (Statistical Appendices), March 1985.

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Figure 12

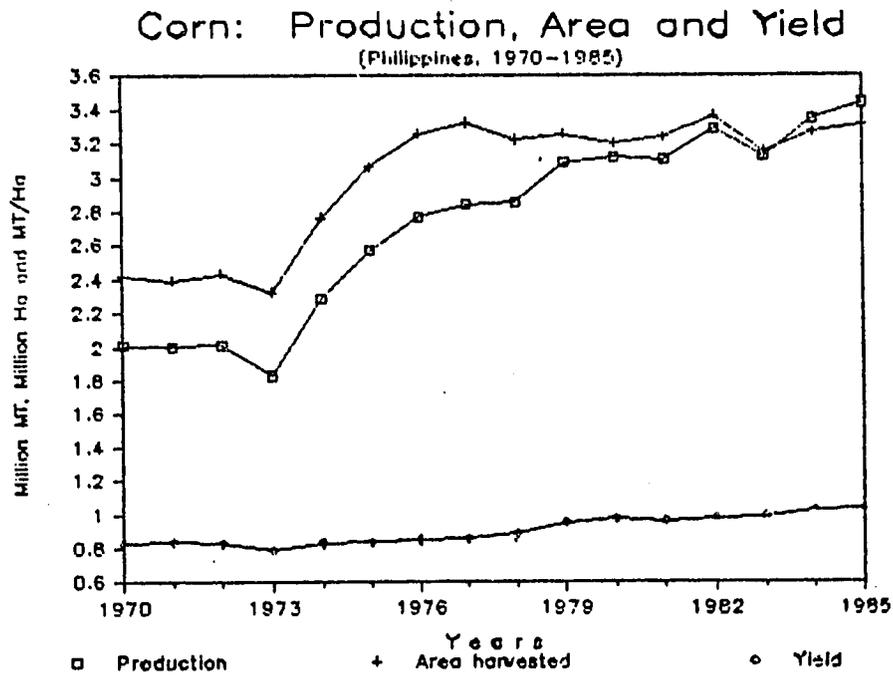
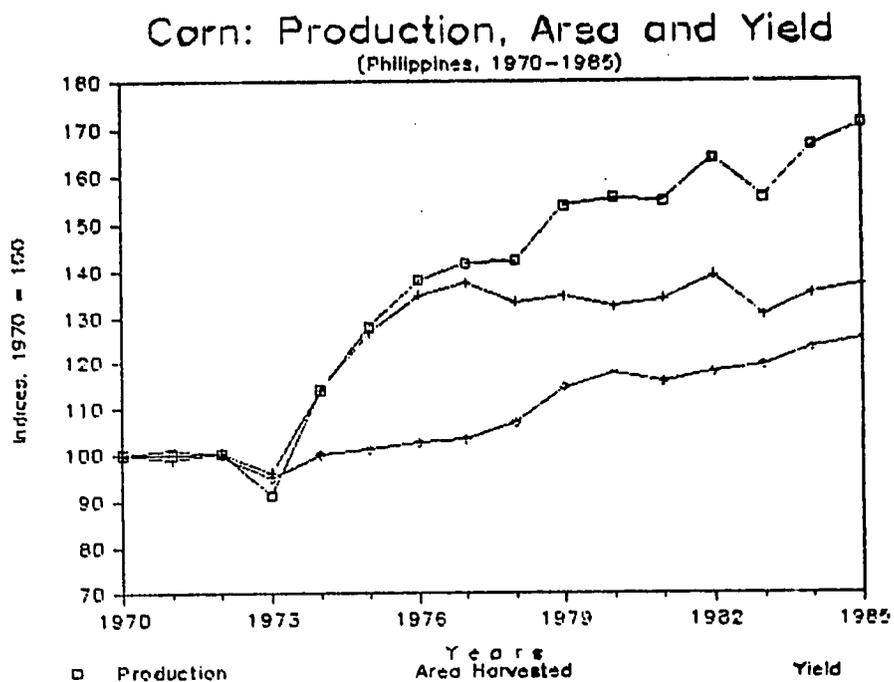


Figure 13



Source of Basic Data: Bureau of Agricultural Economics.

Figure 14

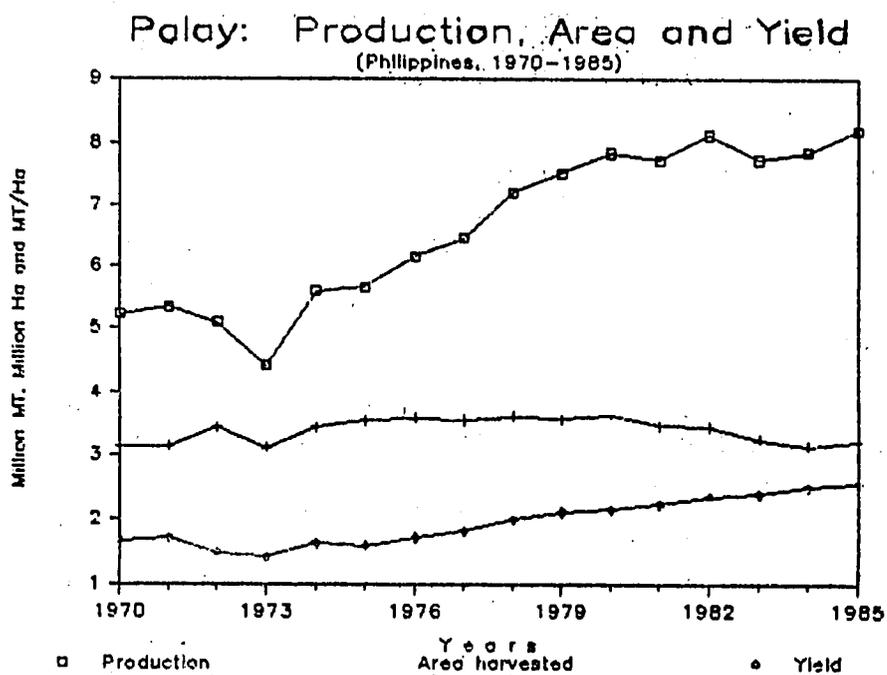
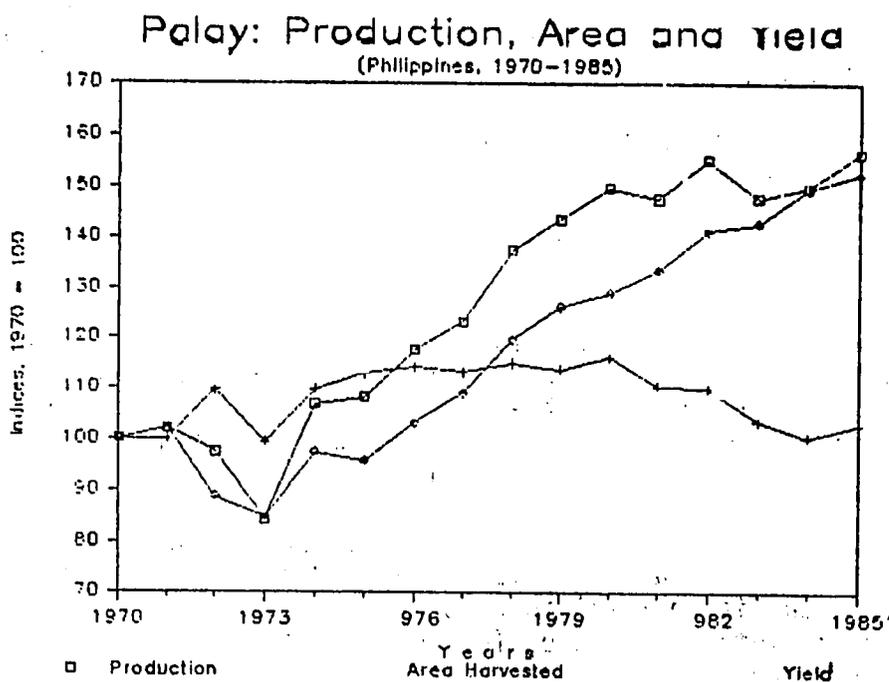


Figure 15



Source of Basic Data: Bureau of Agricultural Economics.

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3. Policy Directions Under the New Aquino Government. Priority is given to agriculture, the predominant source of total production, employment and net foreign exchange earnings. The new President has stated that:

Highest priority will be given to the development of agriculture. This will be done not only to realize the goal of equitable distribution of benefits and opportunities, but also to enable the 70 percent of the population who live in the countryside to maximize their contributions to the economy.

Building on USAID-supported policy studies, the GOP has already adopted a general strategy paper for the agricultural sector. This will continue to evolve in the coming months. The GOP will also continue to review and, where necessary, alter existing programs, procedures, and structures that impact on agricultural and rural development. Efforts will be made to further decentralize government operations and to address such difficult issues as land reform and landless laborers. Priority will initially be given to labor-intensive, rural-based, and small and medium-scale agricultural enterprises, particularly those engaged in food production for domestic consumption.

The GOP has adopted three principal policies which directly relate to this project:

- a. To create an economic environment for the farmer that is free from unnecessary and costly government institutional and policy interventions.
- b. To provide the farmer, especially the poor farmer, with access to land, an adequate infrastructure, irrigation, a market information service, and to provide the landless households and other elements of the rural economy with greater employment opportunities.
- c. To increase the effectiveness of the various concerned ministries in pursuing the new thrusts in agriculture and the rural sector. Decentralization will be the key feature to ensure the effective participation of the grassroots rural population in government decision making and rural development.

Basically, these policy and program changes are expected to correct prior strong biases against agriculture. Sector growth is to be promoted. Focus is on rural infrastructure, freer and more competitive markets, support of farm prices for basic grains, a flexible exchange rate policy, reduction of agricultural export taxes, lowering of purchased input prices, reduction of real financial costs to farmers through improved credit delivery systems, and more comprehensive, effective and decentralized production support.

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Additional programs and institutional improvements have been incorporated into the self-help activities covered under PL-480, Title I agreements. These include: (1) deregulation of the price of milled rice; (2) deregulation of imports of wheat and distribution of flour; and (3) ensuring unrestricted rights of all parties to the importation and distribution of fertilizer. Changes are also being made in the operations of NFA, the agency responsible for grains pricing, procurement and distribution. Specifically, NFA will announce buying and selling prices of paddy rice before each cropping season which it will support through a rice stabilization program. It will also divest of all its non-grains stabilization and trading activities. In addition, reforms in interest rates and credit institutions have been agreed upon as a part of the World Bank and A.I.D. loans to the Agriculture Loan Fund.

While agriculture has been identified as a priority sector to lead recovery and the general policy environment is conducive to promoting growth, current worldwide surpluses of nearly all food commodities will dampen recovery and growth prospects. Current feedgrains and rice prices are at very low levels. Thus, the Philippines can not export its modest surplus of rice profitably. Cheap imports of feedgrains threaten recovery of the local corn industry. The debt-ridden NFA, and the national treasury in general, restrict the amount of governmental assistance for rice or corn price support or even stabilization programs. Likewise, there will be counter pressures to protect local agricultural crops, particularly corn and rice, and pressures to allow consumers the benefits of low world prices.

In summary, liberalization and the removal of restrictive programs and policies against agriculture establish a general framework for better overall growth but delivery and use of more productive farm technology (to increase yields and decrease production costs) will be necessary to achieve growth in the face of low commodity prices.

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ANNEX F.3

CONFORMITY WITH HOST-GOVERNMENT AND A.I.D. POLICIES AND STRATEGIES

The basic policy thrust of the current Philippine economic and agricultural programs with which the project will associate is market oriented. Stronger private sector role in the economy is a cornerstone of the new administration's policy pronouncements. New policy and program directions will be based on public dialogue of the issues and more concrete analysis. Agriculture and the rural sector have been identified as the lead sectors in the economic recovery. The policy development process, proposed thrusts, and strategy for recovery strongly coincide with U.S. assistance policy. The AAP Project will finance studies for: 1) the privatization of government owned firms; 2) better policy formulation; and 3) technical assistance relative to these areas. These activities are the thrusts of A.I.D.'s policies for development.

To the extent there is governmental intervention it is in support of better private sector services for farmers. Infrastructure development and maintenance are viewed as legitimate areas of involvement for the public sector. Initial support of farmer irrigation associations by the government is necessary until commercial demand and private sector supply of this type of service evolves. Collection of user fees for irrigation water is a major policy objective of A.I.D. and GOP. The project will make investments in research and information dissemination through the private and public sectors depending upon proprietary and effectiveness criteria.

A possible exception to the generally free market approach is for assistance in the government's role in rice and corn price policy and programs. The intent of the GOP is to favor more private sector involvement, investment and competition in grains processing and trading. Government's intervention in the market will be minimal. There will undoubtedly be a need to divest selected assets and provide an environment wherein private trade can gradually establish a competitive market. The A.I.D. agricultural policy paper (November 1982) on pricing and subsidies states that the Mission supports pricing objectives which give production incentives as much as possible if justified by costs. This implies possible market intervention when open markets are not achieving the objectives. The general Policy Paper (May 1982) notes that price interventions might also be addressed by such programs as farm storage. This avenue of helping stabilize prices will also be investigated. The A.I.D. policy paper on PL-480, Title I guidance clearly mentions price stabilization programs as being worthy candidates for a policy led type of Food for Development Program. This project, and the GOP, propose to use the private sector to the extent possible. The initial studies financed by the project assistance on grain price stabilization are basically in keeping with A.I.D. policy and that any future assistance will be contingent upon the National Food Authority (NFA) divesting itself of unneeded functions.

ANNEX F.4

ECONOMIC CRITERIA FOR SUBPROJECT SELECTION

The AAP Project by its very nature is a composite of subprojects focused on what is perceived to be areas in which high short run returns can be realized from project investments. The services to farmers component adds marginal resources to major prior investments in irrigation construction, research development, and institutional development of the Ministry of Agriculture and Food (MAF) with the expectations of high immediate payoffs in terms of services delivered to farmers. Market development has both economic and financial implications. While the impacts of GOP's intent to divest itself of prior investments in private sector domains is difficult to quantify, potential effect is very great in terms of the intangible, yet important factor, on investor confidence. The financial impacts of privatization of government-owned parastatals will be major, but further analysis is needed in order to judge the magnitude of effect on the budgetary drain. Similarly, the economic analysis, planning, and statistical functions component is expected to have high upstream benefits.

Economic returns from project investments can be derived from several sources, namely:

1. Increase in total value of output. While there is considerable variance in agricultural statistics regarding the value of production and value added in the agricultural sector, estimates for 1984 indicate the gross value of output to be about \$3.8 billion in 1984 prices. If the project even fractionally influences gross domestic agriculture product, the investment would be economic.
2. Improved efficiency of input use (non-fixed investments). Fertilizer costs are running about \$100-125 million at the border. Hence, any efficiency gained in use of this input would be a substantial gain.
3. Better choice of fixed investments. Assuming the total economy recovers within the life of the project, fixed investment in agriculture infrastructure - both public and private - should increase substantially from the present pattern (which may be negative). Information generated by the project on markets, crop diversification, divestiture, research and outreach and financial institutions should lead to increased and better investment choices as a result of the Project.

Some combinations of the above sources of economic returns to the Project should occur in addition to the benefits that would stem from improvements in social and nutritional well-being.

About 52% of project resources are budgeted for irrigation and for production demonstrations. These areas of investment will produce high economic and financial rates of return by the nature of investment and quick production returns. With respect to irrigation the investment will be for minor rehabilitation and system repairs and the output will be better management of the irrigation systems and include the better management of irrigated farms. Normally, irrigation rates of return are calculated based upon the costs of

the entire system and the incremental farming costs and returns. For this subproject the investment trades on major sunk costs already in place yet farm production should increase substantially with relatively low incremental costs. The estimated ERR's for three systems evaluated are in the range of 30 to 70%. All systems that will receive project assistance are tested for feasibility. Extension efforts should also produce high rates of return because in strict sense, extension is merely an information transfer with farmers paying production costs. As information dissemination is fairly inexpensive, any widely adapted technology should therefore produce a high rate of return.

With respect to the economics of the balance of the project, there is no way to calculate an estimated internal rate of return as the various studies, data base building and analysis activities do not generate a direct income stream. For the data information and analysis activities, it is sufficient to say that better policy analysis and dialogue is high on A.I.D.'s agenda because marginally changed policies in either the right or wrong direction have significant implications. Therefore, investments in these areas are generally considered "good investments" to shed light on the consequences of alternative policies. The critical assumptions are: 1) whether the information base is sufficiently developed to support solid analysis; 2) whether talent exists to carry out the analysis; and 3) whether decision makers are receptive. The current favorable policy directions were, in part, derived from analysis carried out by the groups the Project expects to further support. The prospects for substantial returns on investments in economic analysis therefore are good.

Refinement of policies and operational approaches for the grain price stabilization programs and for the fertilizer industry are clearly critical to the economics of accelerating agricultural growth. These areas have strong consumer welfare implications, and have large financial implications on the program operations. The scopes of work for the studies which the project will finance will take into consideration the financial implications of any recommended programs and how the programs are expected to impact on the economy as a whole.

The market development activities, while perhaps not as central to agricultural growth as grain prices and performance of the fertilizer sector, are important issues both economically and financially. The studies approach will yield important information on options for divestiture of parastatal operations and for reducing the risks of potential investments into non-traditional agricultural production and agribusiness ventures. Throughout this Project, least cost alternatives have driven approaches for actual or potential interventions, that is: 1) carrying out irrigation operation and performing maintenance are to be increasingly carried out by farmers which are apt to be more economical than those of a governmental irrigation agency; 2) grain price stabilization activities are to be undertaken only after careful consideration of economic and financial implications; 3) similarly with the fertilizer industry; and 4) market development activities and approaches to research and outreach are primarily studies which will spell out the best economic and financial options.

ANNEX F.5

FINANCIAL PLAN

I. Description of The GOP Budget System

A. Overview of Program Funding

The GOP budget is a total resource budget, wherein, under the terms of Presidential Decree 1177 (PD 1177) all the resources and commitments of the government are to be considered at one time. It is the responsibility of the Office of Budget and Management (OBM) to prepare the budget documents after the overall levels have been established by the Development Budget Coordination Committee (DBCC). The DBCC sets the expenditure program for the year under the National Government Expenditure Program (NGEP) which is later transformed into what is called the General Appropriations Act (GAA) and the Public Works Act. The national budget as presented and adopted must be balanced: planned deficits are not permitted. The gap between planned revenues and planned expenditures including capital outlays, must be met through a financing program from identified sources.

The GOP operates on a January 1 to December 31 calendar year. The year is broken into four quarters to control releases and promote an orderly pattern of disbursements which does not outstrip receipts. The GOP operates on the basis of obligations in that commitments are treated as expenditures (but not necessarily as disbursements) when incurred. It is very difficult, at any point in time, to calculate the cash position of the national government or any individual program or project. The obligation aspect of the budget is regulated by the Advice of Allotment (AA), while cash control is covered by the Cash Disbursement Ceiling (CDC).

The three initial stages of the budget cycle, i.e. preparation, authorization and execution, require approximately 3 years to complete. The budget call precedes the beginning of the calendar year by up to 14 months and close out activities may take 6 to 8 months beyond the year end (infrastructure projects may take 6 to 7 years). If the accountability stage is included, one or 2 additional years will be needed.

The GOP uses a zero based budget approach to force consideration of priorities of all elements of the national government, and to achieve a balance as the planned expenditures usually exceed available revenues.

The budget document is comprised of an annual operating budget, an infrastructure budget, and a regional budget. It also contains a "Key Budgetary Inclusion (KBI)" designation in order to highlight priority

expenditures of the government, such as foreign exchange loan proceeds and peso counterpart funding for foreign assisted projects. The KBI's also facilitate the availability and release of funds as they establish and list mandatory obligations of the agencies.

B. GOP Budget Process Cycle

The GOP budget process cycle has four stages as follows:

1. Budget Preparation
2. Budget Authorization
3. Budget Execution
4. Budget Accountability

1. Budget Preparation (Fiscal Year 1988 Appropriation)

a. Submission (November or December 1986)

Budget Preparation is that stage of the overall cycle when OBM requests ministries, local government units, and government-controlled authorities and corporations to estimate the revenues, expenditures, and expected accomplishments for the fiscal year commencing twelve months hence.

The National Budget Call is prepared by the DBCC and issued to the various agencies/ministries by OBM.

b. Internal Review (January 87 - April 87)

Once completed, the forms are submitted to OBM where analysis is conducted by its various offices. These forms are subject to a coordinated review which includes regional considerations, income estimates, organizational changes, personnel needs, workload measures, past performance, etc. This provides OBM with the background necessary to question the submissions of the ministries/agencies during the technical hearings.

The Budget Technical Hearing Panel, chaired by the Budget Minister establishes tentative ceilings to use in reworking initial estimates.

c. Executive Review (April 87 - July 87)

The most critical review is conducted by the Executive Review Board (ERB), a high-level inter-ministerial panel which has final authority in determining the allocation of resources to meet agency demands. The ERB makes the final decisions on appropriations, obligations, etc. to each agency. OBM reflects these changes in a final budget submitted to the

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President and to the Legislature together with the President's Budget message. This submission of the General Appropriation Bill is referred to the Legislature's Committee on Appropriation.

2. Legislative Review and Authorization (July 87 - September 87)

The initial budget review is conducted by the Committee on Appropriation (chaired by the Budget Minister) who reports the bill to the Legislature floor. Here the budget may be debated and modified. Once it is approved and sent to the President, she/he may "line-item veto", veto the act, submit for reconsideration or permit it to become law with or without his signature. This, then is the authorized General Appropriations Act for the ensuing fiscal year.

a. Appropriations

Appropriations provide the basis to expend funds for a specified purpose, and are very important in the GOP system of budgetary control. Accordingly, ministries carefully word the appropriation language during budget preparation so as to provide a clear, but to the maximum extent possible, flexible purpose for the funds. The appropriation language must set forth the authority, specific purpose, activities, amounts and sources of funds for the programs/projects, together with any other special limitations or special provisions governing the use of such funds.

3. & 4. Budget Execution and Accountability

The Budget Execution phase begins with the preparation by individual ministries/agencies of the Work and Financial Plans (WFP's) for each program/project/activity in the approved budget, which provides the basis for determining the quarterly obligation and cash needs.

Prior to the beginning of the budget year, notices of approved agency WFP's are released by OBM Budget Operations. These notices indicate the total available allotment broken into expenditure classes. At the same time OBM provides a summary of the obligational authority by ministry. This forms the basis for the issuance of Advices of Allotment (AA's). AA's are the first fundamental budget execution document since they represent the initial obligational authority to operating entities. The ministries are then informed of the Cash Disbursement Ceilings (CDC's). This is the second fundamental budget document whose purpose is to control disbursement authorizations.

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a. Advice of Allotment

The AA is the control device for the obligation authority established by the GAA. It specifies the amount which can be obligated by contract, purchase order, etc. The AA in no event will be greater than the amount of the specific appropriation. When issued on a quarterly basis, it has the tendency to reduce flexibility and generate forced savings. Furthermore, all AA's, except those issued to the Ministry of Public Works and Highways (MPWH) and the Ministry of Transportation and Communications for infrastructure projects, are valid only for one year.

b. Cash Disbursement Ceiling

The CDC on the other hand, is the control tool for cash outflows from receipts of cash from designated sources (including foreign donors) prior to disbursement. CDC's are issued on a quarterly basis. CDC's issued in the first three quarters are valid through the end of the year, while those issued in the fourth quarter are valid through the end of the 1st quarter of the following year. Revalidated CDC's may be issued after the 1st quarter of the following year to pay unliquidated accounts payable emanating from valid obligations.

c. Reports and Reviews

Monthly and quarterly reports of receipts, expenditures and accomplishments are required by OBM's National Accounting Office. These reports are used to confirm AA's and CDC's and to more effectively monitor any savings generated.

Furthermore, all agencies are required to submit a balance sheet as of the end of the year indicating the outstanding obligations or accounts payable against each AA. This report which is due one month after year end is used to review cash needs and revalidate CDC's.

In addition, a formal mid-year review is required by law. This review is used to make necessary financial adjustments.

d. Accountability

The above describes the GOP budget and reporting system. This system includes traditional controls inherent in an accounting system and is augmented by audits conducted by the Commission on Audit (COA) which reports directly to the President.

e. Exceptions

While the above pertains to all government activities as mandated by PD 1177, other Presidential Decrees, Letter of Instructions (LOIs) and Joint Circulars (specially Joint Circular 5-82 and 5-82A), the system has not been fully operationalized for government-controlled corporations. Corporations are covered by the AA and CDC process followed by the issuance of treasury warrants for the whole amount of CDC which they then deposit to their commercial bank accounts and make payments therefrom.

The new Government has started a pilot program whereby selected government agencies such as the Ministry of Agriculture and Food (MAF) will undergo an AA/Treasury Warrant Process. Following the issuance of the AA, the OBM issues a treasury funding warrant in favor of a pilot agency such as MAF. MAF can then deposit the warrant in a bank account from where it can draw checks later to pay for authorized expenses.

III. Financial Arrangements

A. Local Currency Costs

1. Annual Plans and Budgets

a. GOP Implementing Agencies

The AAP Project is a new project not included in the GOP's 1986 General Appropriations Act. Accordingly, the reimbursable method of paying the GOP implementing agencies is not possible during the first two years of the project. It is therefore anticipated that the project will utilize the advance of funds method during the first two years of implementation. Succeeding years' project budgets will eventually be included in the GOP's General Appropriation's Act and the reimbursable funding method can be used. Quarterly advances will be needed because regional offices will implement many of the various activities.

The GOP implementing agencies, particularly MAF and the National Irrigation Administration (NIA), will submit their annual WFP's to OBM for review and approval. Once the WFP's are approved, OBM will issue AA's. The GOP implementing agencies will submit their annual Implementation Plans (IP's) to USAID for review and approval. Upon USAID's approval of the IP's, the GOP implementing agencies can submit to USAID requests for cash advance (Standard Form 1034) together with copies of the AA's. Such requests for

advance should be certified by the respective Project Unit Heads in MAF and NIA. Advances will have to be requested from USAID at least one month before the period covered by the advance to allow lead time to process the check. The IP's, requests for cash advance, and any required quarterly fiscal reports will be USAID's basis for determining the quarterly cash needs of the subprojects.

b. Non-governmental Organizations (NGO's)

The NGO implementing organizations will submit their annual Implementation Plans (IP's) to USAID for review and approval. Upon USAID's approval of the IP's, non-profit NGO's may submit to USAID requests for advance (Standard Form 1034) for quarterly cash needs, certified by the designated subproject head. Profit-making NGO's will have to use their own funds and claim reimbursement of quarterly project expenditures.

2. Cash Flow

a. GOP Implementing Agencies

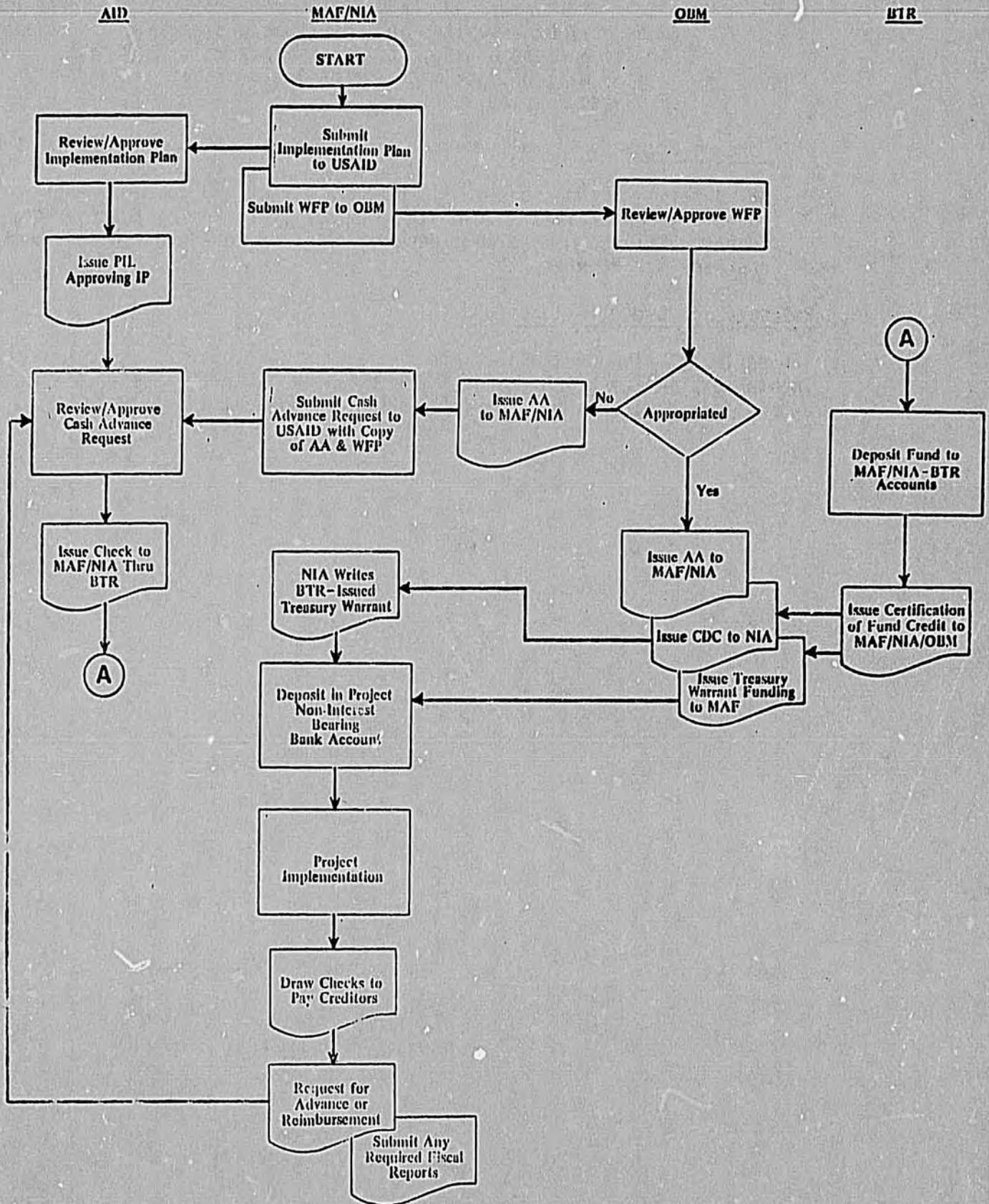
A.I.D. will deposit funds advanced to the GOP's Bureau of the Treasury (BTR) for credit to the MAF and NIA accounts. BTR will then issue a certification of fund deposit to OBM with a copy to the implementing agencies. Using the certification, OBM then releases funds to MAF through a treasury funding warrant, and will issue notices of CDC's to NIA.

NIA will draw a treasury warrant for the whole amount of the quarter's CDC. MAF on the other hand is one of the pilot agencies that is allowed to draw monthly treasury warrants for deposit to a fund account under the control of the BTR. Once these funds are transferred to such fund account, they are freed from the CDC limitations. Since MAF receives its cash requirements from the GOP on a monthly basis MAF should request and OBM should provide the total amount of the advance in the first month of each quarter in order to have USAID advanced funds available for Project needs.

The treasury warrants received by MAF and NIA covering the USAID advanced funds will be deposited in separate non-interest bearing bank accounts established solely for the purpose of this Project. Checks will then be drawn from these bank accounts solely for the purposes of paying authorized Project expenditures.

For both NIA and MAF, fiscal reports are to be submitted within one month following the close of each quarter to liquidate advances and/or claim for any reimbursements. A GOP budget and funds flow procedures flow chart is shown in Figure 1.

Figure 1. Funds Flow Procedures for MAF/NIA Implemented Activities



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b. Non-governmental Organizations

A.I.D. will issue funds advance to non-profit NGO's. Advance funds will be deposited in a bank account established solely for the purpose of the project. Withdrawals from this account will only be made for payments of authorized subproject expenditures.

B. Foreign Exchange Costs

All foreign exchange costs will be paid directly by USAID. Where budgetary constraints so dictate, the GOP implementing agencies may request USAID to make direct payments to creditors under host country contracting/procurement.

IV. Estimates of Budget Allocation

The estimates of budget allocation by components/subprojects, technical inputs, and implementing agencies are shown in Table 1. Specific expenditure estimates will be included in the annual IP's.

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Table 1. LIFE OF PROJECT COST ESTIMATES BY USE AND TYPE OF INPUTS (Thousand U.S. Dollars)

COMPONENTS	TECHNICAL ASSISTANCE		TRAINING/ WORKSHOPS/ CONFERENCES		RESEARCH GRANTS/ FELLOWSHIPS		OPERATING COSTS		COMMODITIES		PUBLICATION DOCUMENTATION		IRRIGATION MANAGEMENT		OTHER COSTS		TOTAL LC	TOTAL FX	PROJECT TOTAL
	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	
A. Services to Farmers	125	755	65		700		5,685				82		5,378		400		12,435	755	13,190
1. Irrigation, NIA		700			700		500				82		5,378		400		7,060	700	7,760
2. Agricultural Research & Outreach	125	55					5,000										5,125	55	5,180
3. Improved Management Services, MAF			65				185										250		250
B. Market Development	555	1,285	150	120	470	90	95		80		120	10					1,470	1,505	2,975
1. Privatization: NFA, PCC, PDC	200	500															200	500	700
2. Grain Stabilization, NFA	100	150	50	100													150	250	400
3. Fertilizer Development, FPA	65	295															65	295	360
4. Market Information Services	75	75	100				75		80		100	10					430	85	515
- MAF	65	65	70				55		70		80	10					340	75	415
- Non-Governmental Organizations	10	10	30				20		10		20						90	10	100
5. Crop Diversification	40	40		20	470	90	20				20						550	150	700
- MAF	20	20		10	200	45	10				5						235	75	310
- Non-Governmental Organizations	20	20		10	270	45	10				15						315	75	390
6. Private Investment for Agr., Private	75	225															75	225	300
C. Economic Analysis, Planning & Statistics	150	400	655	135	450		470		240	25	440						2,405	560	2,965
1. Economic Analysis	50	220	270	135	400		345		125		225						1,415	335	1,770
- MAF	50	100	155		45		45		85		100						435	100	535
- Universities		120	80	115	400		180		40		65						765	235	1,000
- Non-Governmental Organizations			35	20			120				60						215	20	235
2. Planning/Program Development, MAF	20	80	115						15	25	40						190	105	295
3. Agricultural Statistics, MAF, BAS	80	100	270		50		125		100		175						800	100	900
D. Project Management Services		400	30				105		10						175	150	320	550	870
1. Project Management		400					40		10								50	400	450
- USAID		400																400	400
- MAF							40		10								50		50
2. Evaluation														100	150		100	150	250
- MAF														100	100		100	100	200
- NIA															50			50	50
3. Design			30				65								25		120		120
4. Audit Review															50		50		50
TOTAL	830	2,840	900	255	1,620	90	6,355		330	25	642	10	5,378		575	150	16,630	3,370	20,000

Annex F.6.

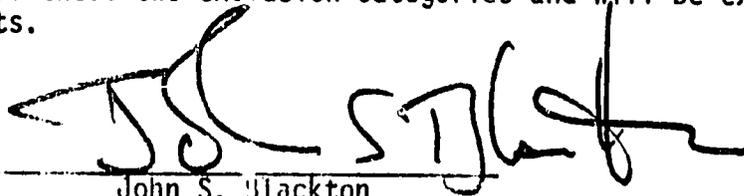
Initial Environmental Examination

Two elements of the program that require impact assessments are: 1) rehabilitation of existing irrigation systems and transfer of responsibility for their management from the Government to farmer groups, and 2) financing a study of the fertilizer industry. Neither of these activities is believed to have significant negative impacts on the physical or cultural environment, and in the case of the former the impacts that they have will be generally positive. The intent of the irrigation rehabilitation element is to restore the systems to original design condition and to provide for better future maintenance and some improvement in on-farm water use efficiency. This element will have two major positive impacts on man-made structures built at high social cost. It will result in delivery of water at near initial specifications and improvement of on-farm water use efficiency. Both rehabilitation and improved maintenance will reduce the habitat favorable to mosquitoes and other human and animal pests associated with large amounts of slow moving, weed infested water. It may also result in some deterioration in the habitat of aquatic birds and animals, but is unlikely to create a habitat less favorable than the environment resulting from the original design. On balance, the environmental impact of this element is judged to be positive.

The study of the fertilizer industry could result in increased production and use of fertilizer with possible negative impacts on human health and rice paddy ecosystem and surface water. The study will specifically address these possible impacts and recommends mitigating actions.

Controlled experimentation and policy studies and analysis are specifically excluded from the requirement for an Initial Environmental Examination (IEE) under Clause 216.2.(c.) (2) (ii) and (iii) of the AID Handbook. Elements of the project other than the two cited above, including that of controlled agricultural experimentation provided for on a contingency basis, will fall under one of these two exclusion categories and will be exempt from IEE requirements.

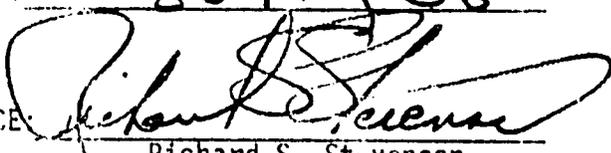
APPROVED: _____


John S. Blackton
Acting Mission Director

DATE : _____

30 Aug 86

CLEARANCE: _____


Richard S. Stevenson
Mission Environmental Officer

DATE : _____

AUG 29 1986

IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Identification
and Evaluation^{2/}

Impact Areas and Sub-areas^{1/}

A. LAND USE

1. Changing the character of the land through:

	<u>Irrig. Rehab.</u>	<u>Fertilizer</u>
a. Increasing the population	N	N
b. Extracting natural resources....	N	N
c. Land clearing	N	N
d. Changing soil character	N	N
2. Altering natural defenses	N	N
3. Foreclosing important uses	N	N
4. Jeopardizing man or his works	M+	N
5. Other factors		

B. WATER QUALITY

1. Physical state of water	M+	N
2. Chemical and biological states	N	M
3. Ecological balance	L	M
4. Other factors		

C. ATMOSPHERIC

1. Air additives	N	N
2. Air pollution	N	N
3. Noise Pollution	N	N
4. Other factors		

1/ See Explanatory Notes for this form

2/ Use the following symbols: N - No environmental impact
 L - Little environmental impact
 M - Moderate environmental impact
 H - High environmental impact
 U - Unknown environmental impact
 + - Indicates a positive impact

D. NATURAL RESOURCES

- | | | |
|--|----|---|
| 1. Diversion, altered use of water ... | L+ | N |
| 2. Irreversible, inefficient commitments | N | N |
| 3. Other factors..... | | |

E. CULTURAL

- | | | |
|---|---|---|
| 1. Altering physical symbols | N | N |
| 2. Dilution of cultural traditions | N | N |
| 3. Other factors | | |

F. SOCIO-ECONOMIC

- | | | |
|--|---|---|
| 1. Changes in economic/employment patterns | N | N |
| 2. Changes in population | N | N |
| 3. Changes in cultural patterns | N | N |
| 4. Other factors | | |

G. HEALTH

- | | | |
|---|----|---|
| 1. Changing a natural environment | N | L |
| 2. Eliminating an ecosystem element | L+ | N |
| 3. Other factors | | |
| 4. Larger Program Impacts | N | N |
| 5. Exposure to hazardous chemicals | | M |

E. GENERAL

- | | | |
|--------------------------------|---|---|
| 1. International impacts | N | N |
| 2. Controversial impacts | N | N |
| 3. Other factors | | |

I. OTHER POSSIBLE IMPACTS (not listed above)

See attached Discussion of Impacts.

ANNEX F.7

GRAY AMENDMENT CERTIFICATION

I, JOHN S. BLACKTON, the Acting Director of the Agency for International Development in the Philippines, having taken into account the potential involvement of small and/or economically and socially disadvantaged enterprises, do hereby certify that in my judgement the majority of the technical assistance required under the project is best provided through open competition of U.S. and indigenous firms. However, all other things being equal, preference will be given to U.S. firms which submit joint proposals with Gray-Amendment satisfying firms. In addition, full consideration will be given to the use of Gray-Amendment satisfying firms for the off-shore commodities procurement and evaluation elements of the project.



John S. Blackton
Acting Director, USAID/philippines

30 Aug 86
Date