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DAT. SENT 9/6/68

FROM - MANILA

SUBJECT - FY 1970 Budget Submission

REFERENCE -

NONCAPITAL PROJECT PAPER (PROP)

Country Philippines Project No. 492-51-190-120

Submission Date September 1, 1968 Original X Revision No. ____

Project Title AGRICULTURAL SERVICES (Includes Agric Credit, Coops & Mktg)

U.S. Obligation Span: FY 1955 through FY 1973

Physical Implementation Span: FY 1955 through FY 1973

Gross Life-of-Project Financial Requirements: ($000)

U.S. Dollars	$9,630
U.S.-Owned Local Currency	60
Cooperating Country Cash Contribution ($1.00 = P3.90)	54,000
Other Donor(s)	-
TOTALS	$63,690

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PAGE 1 OF PAGES 13

DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY:
Staff			8-31-68	Francis E. Neal Acting Director

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I. Summary Description

General stagnation within the agricultural sector has been a serious barrier to general economic growth within the Philippines. It is estimated that about two-thirds of the people live in the rural areas and most of these depend upon agriculture for their livelihood. However, few systematic or sustained efforts have been made to develop agricultural resources and the sector has been operating at less than a subsistence level. Small annual production increases have been made but these have been inadequate to meet the needs of a population which increases at the rate of 3-4 per cent a year. The resulting food deficits have required that scarce foreign exchange be used to import large quantities of foodstuffs. Funds which might be used for economic development are thus absorbed by imports to meet consumption needs.

USAID's basic goal in the agricultural sector is to assist appropriate GOP organizations and private institutions to achieve and maintain self-sufficiency in basic foodstuffs. Achievement of this broad goal will contribute to Philippine economic growth by:

1. Reducing the outlay of foreign exchange for food imports.

2. Improving the nutritional and food consumption levels of the population.

3. Supporting the continued growth of agri-business activities.

4. Expanding markets in the rural areas for consumer and industrial products.

5. Increasing the confidence of rural people in their ability to improve their own welfare through changed agricultural practices.

6. Maintaining a larger per cent of the rural population gainfully employed over a longer period of the year.

To attain its goal, USAID will continue to support the programs of selected institutions including, but not limited to the Rice and Corn Production Coordinating Council (RCPCC), the Bureau of Plant Industry (BPI), the Bureau of Agricultural Economics (BAE), and the Rice and Corn Administration (RCA). Such support will include advisory services of USAID technicians, participant training and purchase of project commodities as deemed appropriate. USAID will also continue to support provincial

and local agricultural development programs where cooperation is demonstrated and opportunities for significant innovation exist. USAID will also give support to the worldwide Rodent Research Project being carried out by a team of Philippine and U.S. (PASA) scientists at the University of the Philippines College of Agriculture (UPCA). It is anticipated that USAID support for these activities will be required through FY 1973.

Specific activities will include the establishment of three seed test laboratories, a rodent research center, an effective agricultural marketing and news service, integrated livestock production projects, the upgrading of agricultural experiment stations, the development of extensive feedgrain and vegetable production, the development of agricultural produce marketing associations, and the promotion of small scale farm machinery and large scale storage and handling facilities.

USAID is, and will continue to work closely with private industry involved in the agriculture sector. Particular emphasis will be given to supporting the establishment of organizations such as the Philippine Seed Producers Association.

The previously separate Agri-Business Education Project (492-11-190-084) has been incorporated into this project.

The Philippine Government's contribution to these activities is expected to be about ₱4,000,000 per year.

II. Setting or Environment

The absence of significant growth in the agricultural sector has been a serious barrier to general economic growth within the Philippines. The lack of development in this sector is associated with other serious economic problems. For example, there is great under-employment of rural labor in many areas since traditional agricultural practices make full use of manpower resources only during the planting and harvesting of a one-season primary crop. Low farm productivity and the concomitant low level of farm income have militated against the creation of capital surpluses and consumer markets adequate to support significant growth within the industrial sector. In short, the agriculturally-generated surpluses which are a necessary prerequisite to general economic development have not been available. The stagnation of agricultural production thus directly and importantly contributes to the general stagnation of the Philippine economy.

In 1965, USAID made a critical appraisal of past U.S.-supported programs and of the potentials for, and problems of, accelerating growth in rural areas. As a result of this appraisal, USAID, in cooperation with

the Philippine Government, decided to experiment with a rural development effort which would be planned and implemented at the provincial level. It was decided that emphasis should be given to increased rice production as the low levels of production of this essential foodstuff could not meet the nation's need and scarce foreign exchange had to be utilized to cover shortfalls. The provinces of Tarlac and Laguna were selected for the pilot effort because they were important rice producers and because their governors were genuinely concerned with developing their provinces.

The higher agricultural productivity achieved by these pilot undertakings almost immediately demonstrated the potentials inherent in an intensive, rational agricultural program. Central government officials were impressed with the results of the pilot effort and, in 1966, developed a similar national program aimed at attaining rice and corn self-sufficiency within four years. To accomplish this goal, the RCPCC was created to oversee the entire accelerated rice and corn production program and to coordinate the activities of government agencies already operating in the agricultural sector. USAID enthusiastically endorsed this program and placed a significant portion of its resources behind it.

The initial results of the RCPCC program have been most encouraging. The basic goal of increasing per hectare yields is being accomplished through the provision of new high-yielding varieties and the inputs needed for their cultivation. The program has resulted in significant production increases. The area planted to the three major high yielding varieties (IR-8, BPI-76 and C-18) increased from a few hectares of experimental plots in 1965 to 371,322 hectares in CY (Crop Year) 1967-68. This constituted 16.6 per cent of the area planted to rice (2,229,829 hectares) and 30.9 per cent of the total irrigated area (1,200,000 hectares). These three varieties accounted for 18.1 per cent of the CY 1967-68 palay (rough rice) production reported as of April 1968. (The above planting and harvesting data are based on RCPCC field reports as of April 1968).

Average palay yields for the new varieties were usually more than 100 per cent above the traditional yields of 30-40 cavans per hectare. (One cavan of palay equals 44 kg. of palay). While there is some disagreement on the exact national rice production figures, many observers feel that production will equal the estimated consumtpion requirements of 3.1 million metric tons (MT) of milled rice in CY 1967-68. In 1967, projected bumper crops led GOP officials to reduce rice imports from a programmed 377,258 MT to 182,850 MT. This resulted in a reported savings of ₱30.7 million in foreign exchange. (Data are based on Philippine Rice and Corn Administration reports.) By June 1968, RCA had contracted for the exportation of 30,000 MT of local rice. This was the first time in recorded history that the Philippines had exported local rice on a commercial scale.

Although significant progress has been made in increasing the production of rice, many problems must yet be resolved if the goal of general food self-sufficiency is to be achieved. With the exception of export crops like sugar and pineapple, little capital investment has been made in the agricultural sector. Even with export crops, production methods have been labor intensive and mechanized processing methods have not been developed in most areas.

While the climate and soils of the Philippines are generally conducive to increased food production, the natural water supply, due to seasonal rainfall patterns in most areas, is inadequate to support year-round rice cultivation. Renovation of existing irrigation systems and the development of new systems is proceeding at a slow rate, so irrigation is a major limiting factor for the expansion of rice production. Research discloses that it requires eight times as much water to produce a crop of rice than an equivalent crop of an alternative grain. Investigations will be conducted to determine the feasibility of meeting grain requirements by planting a relatively small, well irrigated area to rice and planting alternative crops in the expansive area where water is limited. Greater utilization of the land through secondary cropping in the dry season is also required.

Rodents are becoming an increasingly important factor reducing the availability of foodstuffs. The promotion of second crop planting is greatly hindered because farmers know that the rodents, deprived of the expansive rice field for food and harborage, can quickly devastate the limited second crop planting.

In order to realize adequate returns from the use of new high-yielding varieties, it is essential that the farmers have access to such inputs as water (discussed above), seeds, fertilizers, perticides, and technical advice. However, before the farmer can acquire most of these inputs, he must have access to financing. Aside from the traditional loans available from the landlord or the usurers, the poorer farmer has very limited access to credit facilities. Some loans are available through the Agricultural Credit Administration (ACA), but these are often too small and not related to technical assistance or supervision. Consequently, the impact on production methods may be nil.

To meet the need for farm credit which was coupled with technical supervision, the MEC/USAID created an Agricultural Guarantee and Loan Fund (AGLF) (Noted below under action programs to achieve food self-sufficiency).

A land reform program and programs aimed at attaining food self-sufficiency could co-exist and, if expertly handled, complement one another.

Under present arrangements, however, land reform efforts are accomplishing little in terms of effectively changing tenure relationships and are in some cases interfering with the goals of the food production programs. Farmers in land reform areas appear to receive less technical and financial assistance from credit institutions than those outside of such areas. Until recently, agricultural technicians in land reform areas had not emphasized the training of farm management personnel in the new rice technology that has created a minor revolution throughout the rest of the country. Reports indicate that farmers in areas which are under consideration to be proclaimed Land Reform Districts deliberately hold down production as subsequent rental rates will be based on average production levels obtained over the last three years prior to proclamation. A rational program seeking to join land reform efforts and increased food production is necessary if either is to prosper.

Some laws and customs regulations impede certain improvements in food production. For example, the livestock/poultry industry is underdeveloped in the Philippines and immediate improvements must be made if self-sufficiency in these foods is to be realized. The most important step in increasing productivity is the making available of quality feeds at reasonable prices. The high duties placed on feed supplements and additives entering the Philippines act as a major determinant to developing a modern industry.

III. Strategy

The primary strategy for attaining the goal of basic food self-sufficiency has been, and still is; to demonstrate the value of new approaches through demonstrations and studies carried out by USAID and GOP technicians and to then support larger programs which are based on the experience gained in the pilot efforts. The approach has proven highly successful in increasing rice production and shows equal promise in the production of secondary crops such as feedgrains, vegetables and livestock.

The traditional USAID approach to solving agricultural production problems has been to give advice at the policy level without becoming involved, on a day-to-day basis, at the farm level. USAID/Philippines has tried this approach in the past but was rewarded more with failure than success. The present approach, working at all levels from individual farmer up through agency administrators, has proven highly successful. Through this arrangement, many communication gaps are eliminated between producer and policy maker. USAID guidance at the policy level has gained increased acceptance since it reflects a working knowledge of root level problems.

Although USAID believes that the present direct approach to the production problem is the best alternative, other methods of administering these activities are being investigated. For example, it may be desirable

to explore the possibilities of incorporating the present program into a JCRR type structure to better assure long term effectiveness.

Philippine Government support of the USAID initiated agricultural activity has been impressive. As noted above, the Central Government, stimulated by the results of USAID efforts in two pilot provinces, developed a similar national program aimed at achieving rice and corn self-sufficiency within four years. The RCPCC was created to oversee the entire program and to coordinate the activities of all government agencies already operating in the agricultural sector at both the national and provincial level. Last fiscal year approximately P28 million was allocated for this program.

The USAID initiated Rural Bank supervised credit program was equally well received by the GOP. A USAID P5 million contribution to this loan fund was followed by P24 million in contributions by Philippine government agencies. The Vice-President recently petitioned the Philippine Congress for an additional P21 million to support this credit program.

Strong support of activities in agricultural development has come from President Marcos. To underscore the importance of this sector in his list of priorities, he designated the Vice-President to act as the Secretary of Agriculture and Natural Resources and his Executive Secretary, Rafael Salas, to act as Action Officer (Executive Secretary) of the RCPCC.

IV. Planned Targets, Results, and Outputs

The overall goal of the project is to develop sufficient capabilities to attain and maintain self-sufficiency in basic foodstuffs.

The goal of achieving self-sufficiency in the production of rice and corn appears to have been achieved. Such self-sufficiency can only be maintained, however, if (a) necessary inputs, including credit, continue to be readily available and if (b) drying, storage, handling and marketing facilities capable of coping with this increased production can be established. USAID believes that, given continued high level GOP cooperation, progress in solving these particular problems will have advanced sufficiently enough by FY 1972 that USAID technical assistance will no longer be required.

The goals of attaining self-sufficiency in vegetable production will depend largely upon the development of storage, marketing, processing and handling facilities. USAID initiatives in production have met with a very good reception. The limiting factor on the expansion of production is the threat of seasonal market gluts due to little or no processing industry. The goal of creating the capability for sustained self-sufficiency should be realized in FY 1973.

The attainment of self-sufficiency in swine and poultry production is largely dependent upon increasing the production of feedgrains. USAID anticipates that this program will result in the production of sufficient amounts of feedgrains to preclude the necessity of imports by FY 1973. It is also anticipated that by FY 1973 the program will have succeeded in introducing modern swine raising techniques to enough producers so that pigs will be commonly marketable at six months of age rather than the prevailing eight to nine.

In order to sustain food self-sufficiency, it will be necessary to provide the producer with accurate marketing information and to arrange for the exportation of any surplus which may develop. USAID will provide technical assistance to the BAE to improve their capabilities in collecting and disseminating agricultural marketing and production information and will assist the PCA in developing an export marketing system. It is anticipated that these two agencies will have become sufficiently sophisticated in these areas by FY 1973 to preclude the need for further USAID assistance.

By 1973, the BPI should have a well developed seed certification program. The Philippines should, by this time, be in a position to produce sufficient quantities of seeds to meet all normal requirements.

The Rodent Research Center, which will become operational in FY 1969, will require AID assistance for at least five years after which time this facility should be in a position to continue operations without AID support.

The foundation for long term basic foods self-sufficiency should, therefore, be laid by the end of FY 1973.

V. Course of Action

FY 1969

A. General Program Support

NEC/USAID will continue to support the RCPCC food production program with both limited commodities and local currency funds for administration and special project costs. The GOP will continue to supply participating agencies with special budgets to carry out RCPCC activities. Technical assistance will be given the BPI in the establishment of three seed test laboratories for which USAID has procured equipment. A Rodent Research Project will have been initiated at the UPCA in cooperation with the BPI. Local currency costs will be covered mainly through agency contributions and counterpart funds. A

USAID technician will work intensively with the BAE to help upgrade the competence of this Bureau in carrying out its function of agricultural data collections and processing.

B. Food Production

Emphasis will be continued on the technical aspects of rice production in selected provinces during the rainy season. Secondary crops will be pushed during the remainder of the year. USAID technicians will assist the RCPCC in establishing four hundred (400) one-hectare yellow feed corn demonstration plots and one hundred fifty (150) one-hectare sorghum demonstration plots. Limited trials will be undertaken of staple legumes and vegetable crops. USAID will provide seeds for these activities, give technical advice and will assist in the development of training courses for production technicians working with these crops. USAID will assist in the establishment of a pilot cooperative swine production project in a selected province which will utilize a demonstration feedmill procured under the USAID program. USAID will work with the RCPCC to try to develop "pig packages" which will provide for all inputs necessary to scientifically finish out 12 hogs for market.

C. Food Storage, Marketing and Processing

USAID will continue to assist the BAE in its efforts to develop a regular and effective agricultural marketing and news service. High priority will be given to advising the RCA regarding the implementation of recommendations made by the Weitz-Hettelsater survey team which, under USAID contract, conducted a thorough study of the storage, handling and marketing of food and feed grain throughout the Philippines. USAID technicians will also work to develop rice export capabilities. It is anticipated that 100 TDY-man-days in FY 1969 will be required to assist the RCA in implementing the survey recommendations. USAID will cooperate with the RCPCC and the RCA in the establishment of markets for locally produced corn, sorghum and soybeans and in the conducting of Mung Bean storage and processing experiments. USAID advisors will work with a special inter-agency committee established to study vegetable marketing problems, including the development of vegetable producers marketing associations.

D. Agricultural Mechanization

USAID will work with appropriate GOP agencies to establish: (1) procedures for testing new agricultural machinery; and (2) standard procedures for operating newly acquired and/or locally manufactured

equipment. Rice drying, threshing and milling equipment will be tested and demonstrated. USAID will procure for demonstration purposes, six rice threshers and a few tractor-drawn planters, cultivators, etc., for legume and vegetable crops. USAID will encourage and advise personnel interested in the local development of bean and sorghum threshers and other agricultural equipment.

E. Production Credit

USAID will continue to monitor FaCoMa loaning operations and will monitor and support the operations of the AGLF by suggesting ways and means of effecting more efficient collection procedures and refinements.

FY 1970

A. General Program Support

NEC/USAID will continue giving advisory and financial assistance to the RCPCC. Operation of BPI seed test laboratories will be monitored and technical assistance given where deemed appropriate. Six BPI experimental stations will be given rice production equipment already in the USAID pipeline. The BPI has agreed to provide for adequately irrigating the fields of these stations. Continued technical advice will be offered the BAE. The Rodent Research team will conduct field trials on a regular basis and will begin generating information which should lead to better control methods. USAID will initiate a sectoral loan to provide funds for the purchase of commercial scale grain drying and handling equipment and for food processing equipment.

B. Food Production

USAID will continue to offer technical assistance in the planning of high yielding rice varieties and to emphasize the planting of field grains (corn and sorghum) as second crops. It is anticipated that 5,000 hectares will be planted to new yellow corn varieties and 3,000 hectares planted to sorghum. Soybean "kits" in sufficient numbers to plant 700 hectares will be assembled and distributed. Vegetable seed production and distribution under the direction of the BPI will be supported. The USAID PL 480 contribution to the livestock feedgrain program will be phased out as locally produced feedgrains become available. USAID will continue to support the "pig package" approach in order to further expand the program.

C. Food Storage, Marketing and Processing

USAID will continue to give advisory support to the Agricultural Marketing and News Service. Continued support to the government's program to modernize its grain storage and handling facilities will require the equivalent of two years of TDY technical assistance. Surveys and feasibility studies in the area of legume storage, marketing and handling will require 180 days of TDY consultation. Continued technical assistance will be given to support and strengthen vegetable producers marketing associations and to develop grain export capabilities.

D. Agricultural Mechanization

One additional Agricultural Engineer position will be added to the mission staff and 3 TDY men will be required to assist the GOP with training programs which deal with the operation of newly acquired grain storage and drying equipment. Efforts will be continued to demonstrate and encourage the local production and sale of small scale tools for use by small farmers.

FY 1971

A. General Support of Program

NEC/USAID support of the RCPCC will be phased out during this year. Technicians will continue to monitor the operations of the BAE and the BPI Seed Test Laboratories and Experimental Stations. USAID technicians will phase out of rice production activities and will concentrate on feedgrain production. Large scale plantings will be encouraged, possibly on a scale to permit exportation. USAID technicians will also encourage and assist in large scale plantings of legume and vegetable crops. Limited additional TDY advisory services will be required for rice and feedgrain storage and processing. Advisory service to the Marketing and News Service will be phased down. Technical assistance in the Agricultural Mechanization field will be continued.

FY 1972

Continuation of program as outlined in FY 1971.

FY 1973

All USAID activities in the field of agriculture will be phased out with the exception of the rodent research project which may require U.S. assistance for several additional years.

(DRAFTED) WILLIAMS

Table 1
Page 1 of 2

NONCAPITAL PROJECT FUNDING
(OBLIGATIONS IN $000)

PROP DATE: 9/1/68
Original : X
Revision No.:

Country: PHILIPPINES

Project Title: AGRICULTURAL SERVICES
Project No. 492-51-190-126

Fiscal Years	AP	L/G	Total	Cont[1/]	Personnel Serv. AID	Personnel Serv. PASA	Personnel Serv. CONT	Participants U.S. Ag	Participants CONT	Commodities Dir US Ag	Commodities CONT	Other Cost Dir & US Ag	Other Cost CONT
Prior through Actual FY 1968	TC	G	3,530	682	547	-	682	221	-	2,074	-	6	-
Opr. FY 1969	TC	G	600	25	285	-	25	30	-	260	-	-	-
Budg. FY 1970	TC	G	1,200	50	300	-	50	30	-	820	-	-	-
B + 1 FY 1971	TC	G	1,300	50	330	-	50	30	-	890	-	-	-
B + 2 FY 1972	TC	G	1,500	50	350	-	50	30	-	1,070	-	-	-
B + 3 FY 1973	TC	G	1,500	50	300	-	50	30	-	1,120	-	-	-
All Subs.													
Total Life	TC	G	9,630		2,112	-	907	371	-	6,234	-	6	-

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Table 1
Page 2 of 2

Project No. 492-51-190-126

Exchg Rate - $1 = P3.90

Fiscal Years	AID-controlled Local Currency		Other Cash Contribution Cooperating Country 2/	Other Donor Funds ($ Equiv.)	Food for Freedom Commodities		
	U.S.-owned	Country-owned			Metric Tons (000)	CCC Value & Freight ($000)	World Market Price ($000)
Prior through Actual FY 1968	-	104	16,000	-	-	-	-
Obr. FY 1969	60	1,000	10,000	-	-	-	-
Budg. FY 1970	-	1,000	7,500	-	-	-	-
B + 1 FY 1971	-	1,000	7,500	-	-	-	-
B + 2 FY 1972	-	1,000	7,500	-	-	-	-
B + 3 FY 1973	-	1,000	7,500	-	-	-	-
All Subs.							
Total Life	60	5,104	54,000	-	-	-	-

2/ Includes contributions to the Agricultural Guarantee and Loan Fund and Special additional budgets given to co-operating agencies for RCPCC programs.