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PVO CO-FINANCING III PROJECT

(492-0470)

PROJECT PAPER

USAID/Philippines
August 1992

PVO CO-FINANCING IV PROJECT
(492-0470)

PROJECT PAPER

Table of Contents

a

III. IMPLEMENTATION ARRANGEMENTS

IV. COST ESTIMATES AND FINANCIAL PLAN

V. SUMMARY OF ANALYSES

ANNEXES

C'

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete

Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY

3. PROJECT NUMBER: 492-0470

4. BUREAU/OFFICE: Asia 04

5. PROJECT TITLE (maximum 40 characters): PVO Co-Financing IV

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 98

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

A. Initial FY 93 B. Quarter 1 C. Final FY 97

8. COSTS ($000 OR EQUIVALENT $1 = 25)

A. FUNDING SOURCE	FIRST FY 93 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(260)	(2,640)	(2,900)	(1,350)	(18,650)	(20,000)
(Loan)	(–)	(–)	(–)	(–)	(–)	(–)
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)					8,000	8,000
TOTALS	260	2,640	2,900	1,350	26,650	28,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) ARDN	200	290				2,000		10,000	
(2) HE	500	590				500		4,000	
(3) EHR	660	790				300		3,500	
(4) PSEE	760	920				100		2,500	
TOTALS						2,900		20,000	

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

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

1. To strengthen the well-established PVOs to serve as IIs in assisting smaller PVOs in efforts to provide basic services and expanded employment-generating opportunities, and
2. To expand the participatory and advocacy capabilities of PVOs to enhance policy dialogue, facilitate project coordination and coordinate disaster preparedness, mitigation and prevention efforts at the local, regional and national levels.

14. SCHEDULED EVALUATIONS

Interim MM 10 YY 95 MM YY Final MM 03 YY 98

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.)

NOTE: The provisions of the payment verification policy regarding methods of implementation and financing, financial capability of recipients, and adequacy of audit coverage have been adequately addressed in this document.

J.C. Stanford, Controller

17. APPROVED BY

Signature: John A. Patterson

Title: Acting Director, USAID/Philippines

Date Signed: MM 03 DD 17 YY 92

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

MM DD YY

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

Philippines

PVO Co-Financing IV

A.I.D. Project No. 492-0470

1. Pursuant to Sections 103, 104(c), 105 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the PVO Co-Financing Project IV (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 six-year period from the date of 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 of the Project. The planned life of the Project is from the date of first obligation of funds under the Project until October 1, 1998.

2. The Project consists of support for the development efforts of registered U.S. and Philippine private and voluntary organizations (PVO's), especially for those efforts that are consistent with USAID/Philippines' development strategy. Such support includes strengthening of selected PVO's as intermediate institutions through technical assistance and training, as well as providing funding for sub-grants that support the purpose of the Project. The Project also provides funding for PVO's to develop their advocacy and policy dialogue capabilities, and for coordination and networking efforts of PVO's, including disaster prevention and preparedness. Except as A.I.D. may otherwise agree in writing, the Project will not finance more than 75% of the total costs of any subproject, with the other 25% consisting of contributions from non-U.S. Government sources.

3. Grant agreements financed under the Project, 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, covenants, and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

4. a. <u>Source and Origin of Commodities, Nationality of Suppliers</u>

Except as A.I.D. may otherwise agree in writing:

(1) <u>Grants having a total procurement element in excess of $250,000</u>.

The source and origin of commodities and the place of nationality of the suppliers of commodities or services financed by A.I.D. under the Project shall be the Cooperating Country or the United States.

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(2) Grants having a total procurement element of $250,000 or less.

The source and origin of commodities and the place of nationality of the suppliers of commodities or services financed by A.I.D. under the Project shall be in the order of preference stated in the grant pursuant to Chapter 16B of Supplement B, A.I.D. Handbook 1.

(3) Ocean Shipping.

Ocean shipping financed by A.I.D. under the Project shall be financed only on flag vessels of the United States.

b. Other

Prior to the date of the first obligation of funds under the Project, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D., a letter of request for the Project, including a procedure for approval of grants under the Project.

Clearances:

Name

OFFPVC:BGeorge ____
OLA:LChiles ____ 8/3/92
OPE:JChang ____
OFM:JCStanford ____
DRM:RMcLaughlin ____
OPHN:EVoulgaropoulos ____
PESO:BCornelio ____
ONRAD:KPrussner ____

By: ____________________
John A. Patterson
Acting Director

Date: Aug 4, 1992

SUMMARY AND RECOMMENDATIONS

1. PROJECT TITLE AND NUMBER: PVO CO-FINANCING IV PROJECT (492-0470)

2. GRANTEE: The Republic of the Philippines

3. IMPLEMENTING AGENCY: Philippine and U.S. Private Voluntary Organizations/Non-government Organizations

4. FUNDING LEVEL AND TERMS: U.S. $20 million from Development Assistance

5. LIFE OF PROJECT: October 1, 1993 - September 30, 1998

6. PROJECT PURPOSES: 1. To strengthen the well-established PVOs to serve as IIs while assisting smaller PVOs in efforts to provide basic services and expanded employment-generating opportunities, and

   2. To expand the participatory and advocacy capabilities of PVOs to enhance policy dialogue, facilitate project coordination and coordinate disaster preparedness, mitigation and prevention efforts at the local, regional and national levels.

7. SUMMARY PROJECT DESCRIPTION: The PVO Co-Financing IV Project seeks to improve the socio-economic status of selected groups, including ethnic minorities, through participatory activities designed to increase employment, production and marketing opportunities, expand access to capital and technical resources, and increase the availability and access to health care and other essential services. The Project will further strengthen intermediate institutions (IIs) to broaden the Co-Financing Program coverage to smaller, harder to reach regional and ethnic NGOs. The project will result in an increased number of PVOs prepared to serve as IIs. The increased use of IIs for program management is expected to lessen the management and oversight burden of USAID.

8. GRANTEE CONTRIBUTION: Minimum of 25 percent counterpart contribution is required for all grantees. This will amount to approximately $8 million over five years.

9. STATUTORY REQUIREMENTS: All statutory requirements have been met (Annex D).

10. <u>RESOLUTION OF PROJECT ISSUES:</u> (To be completed after Mission Review)

11. <u>RECOMMENDATION:</u> Authorization of a grant of U.S. $20 million.

12. <u>PROJECT TEAM</u>: The USAID Project Team members are:

OFFPVC: David Nelson
DRM : Fatima Verzosa
OPE : Maria Luisa Panlilio
OFM : Catherine Placido
PESO : Brad Wallach
OPHN : Eilene Oldwine
ONRAD : Jose Dulce
OLA : Lisa Chiles
CSO : Jose Marcial Ochoa

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ACRONYMS and ABBREVIATIONS

AIDAB	Australian International Development
AID/Washington	AgencyInternational/Development/Washington
AIM	Asian Institute of Management
BEO	Bureau Environmental Officer
BRC	Business Resource Center
CEA	Cost-effectiveness Analysis
CDRC	Citizen's Disaster Response Center
CIDA	Canadian International Development Agency
CSO	Contract Services Office
DA	Development Assistance
DPF	Development of People's Foundation
DTI	Department of Trade and Industry
DRM	Development Resources Management Office
EEC	European Economic Community
FSN	Foreign Service National
GAO	Government Auditing Office
GOP	Government of the Philippines
IEE	Initial Environmental Examination
II	Intermediate Institutions
IGPs	Income Generating Projects
IRA	Internal Revenue Allotment
JICA	Japan International Cooperation Agency
JVOF	Jaime V. Ongpin Foundation
LGC	Local Government Code
LGU	Local Government Unit
MEO	Mission Environmental Officer
MILAMDEC	Mindanao Lumad and Muslim Development Center
MRMF	Mother Rosa Memorial Foundation
NCR	National Capital Region
NDEA	Notre Dame Educational Association
NGOs	Non-government Organizations
NEDA	National Economic Development Authority
OFFPVC	Office of Food for Peace
OFM	Office of Financial Management
OLA	Office of Legal Advisor
OPHN	Office of Population, Health and Nutrition
ONRAD	Office of Natural Resources, Agriculture and Decentralization
OCP	Office of Capital Projects

OPE	Office of Program Economist
PACD	Project Assistance Completion Date
PBSP	Philippine Business for Social Progress
PESO	Private Enterprise and Support Office
PINOI	Phil. Institutions of Non-governmental Organizations, Inc.
PIO/T	Project Implementation Order/Technical
PO	People's Organizations
PSC	Private Services Contractor
PVO	Private Voluntary Organization
RAO	Resident Audit Office
RAFI	Ramon Aboitiz Foundation, Inc.
RDC	Regional Development Council
RDO	Regional Development Office
SBGFC	Small Business Guarantee and Finance Corporation
SEC	Securities and Exchange Commission
TSPI	Tulay sa Pag-unlad, Inc.
UNDP	United Nations Development Program
UPEcon	University of the Philippines Economics Foundation
USAID	United States Agency for International Development
WID	Women in Development

PRIVATE VOLUNTARY ORGANIZATION CO-FINANCING IV

Project Paper

I. BACKGROUND

A. Overview

1. The PVO Sector in the Philippines

The Private Voluntary Organization (PVO) sector has been burgeoning in the Philippines since the late 1970's, but reached its most accelerated growth only within the last six years, under a supportive environment provided by the Aquino administration. PVOs play a major role in the Philippines; in building community organizations, mobilizing scarce resources, providing essential social services, and by helping to provide alternative income opportunities to marginalized groups and communities. In the aftermath of natural disasters such as typhoons, earthquakes and the recent Mt. Pinatubo eruption, PVOs also play a key role in providing and coordinating immediate relief and addressing community rehabilitation needs.

There are several types of PVOs, or Non-Governmental Organizations (NGOs) as they are known locally, operating in the Philippines. The majority are small and Philippine-based, although most larger international PVOs are also represented. Included are foundations linked to family corporations, foundations supported by private businesses, agencies of religious institutions committed to development or social welfare, and academic or professional organizations that focus on socio-economic research and community advocacy.

The GOP has openly encouraged the growth and development of NGOs, offering incentives for their formation that include the provision of duty and tax-free importation, and income tax exemptions. Also, NGO desks have been established in all major GOP departments engaged in economic and social development programs. Further, the National Economic and Development Authority (NEDA) has formulated a broad framework of policies for NGO participation in national development efforts. In addition, the new Local Government Code (LGC) requires NGO representation on development planning councils at the municipal, provincial and regional levels.

The primary focus of local PVOs is on socio-economic development at the community level, and a variety of strategies are employed to attain project objectives. Frequently, PVOs possess advanced capabilities in areas such as health services, credit administration, micro-enterprise development and community organizing, and therefore are useful vehicles for providing community groups with technical training in their areas of expertise.

In recent years, the Philippine Government's (GOP's) decentralization program has placed the PVO/NGO community at the forefront of promoting program and policy dialogue at the regional, provincial and community levels. Such dialogues influence public policies and programs, and help sustain the share of national and regional resources allocated to community development activities. PVOs articulate the needs of communities requiring assistance and provide much of the technical assistance and training generally needed to meet such needs. Several of the better-established PVOs serve as Intermediate Institutions (IIs) for smaller organizations, managing sub-lending operations and training centers, while sometimes also implementing their own projects.

There are an estimated 30,000 PVOs in the Philippines, registered with the Securities and Exchange Commission, that are engaged in local development work. At present, 113 are registered with the USAID and thus qualify to receive grant assistance under the PVO Co-Financing program.

2. <u>The PVO Co-Financing Program</u>

The objectives of USAID/Philippines' Private Voluntary Organization (PVO) Co-Financing program have been shaped by the development of three projects over the past decade which have focused on three major objectives: (1) to increase productivity, raise incomes and generate employment among target beneficiaries; (2) to capacitate PVOs to effectively plan, execute, manage and evaluate development projects; and (3) to facilitate linkages and coordination between PVOs, cooperatives and GOP organizations.

The PVO Co-Financing I Project was first implemented in March 1980, and utilized resources of U.S. and local PVOs to address the development priorities of disadvantaged Filipinos. Over its six-year life, the PVO Co-Financing I project made available \$6.61 million through 30 grants to 8 U.S. and 10 Philippine PVOs. Building upon this successful experience, the Mission launched a successor activity, PVO Co-Financing II, in February, 1984. The project's initial funding authorization of \$10 million was later increased to \$18.639 million. Moving beyond the "basic human needs" orientation of PVO Co-Financing I, PVO Co-Financing II's stated purpose was to:

> "...improve the socio-economic status of selected poor groups through participatory development programs and innovative, small-scale or pilot activities which are proposed, developed and implemented by PVOs."

Through June 1992, PVO Co-Financing II supported 65 subproject grants totalling $21.1 million. These grants have been oriented towards: (a) stimulating more numerous and diverse development activities, (b) strengthening PVOs' capacities (particularly those of local PVOs), in project design, management and evaluation; and (c) effectively engaging poor, primarily rural beneficiaries, in constructive development activities. To facilitate this process, larger and more capable local PVOs will serve as Intermediate Institutions (IIs) to reach smaller local PVOs through subgrants.

In continuing the development of the PVO Co-Financing program in the Philippines, PVO Co-Financing III was designed and implemented in February 1989. PVO Co-Financing III is based on a strategy comprised of five elements, namely; (1) formation of indigenous PVOs, including assistance to ethnic and Islamic minorities through development of minority-sensitive subproject grant activities; (2) broadening of eligibility for PVO Co-Financing grants; (3) facilitation of linkages between PVO subproject grantees and the GOP, especially local government units (LGUs); (4) focus of subproject activities on environmental conservation and natural resource management; and (5) emphasis on the capacitation of PVOs' to become IIs managing grants to smaller PVOs.

Since its initial A.I.D. authorization of $15 million, a total of 60 PVO Co-Financing III grants valued at over $18 million have been made through September 30, 1991. Thus far, PVO Co-Financing III has leveraged counterpart resources of $30.5 million. Subject to the availability of funds, USAID expects to make an additional $6 million available for subproject grants during FY 1992. Given its potential for developmental impact, USAID increased the project's authorized funding level from $15 to $27 million and extended it from December 31, 1994 to December 31, 1996. The remaining Co-Financing III grants will be obligated by the end of FY 1992, to allow subprojects which normally have a life of project of three years to complete their activities before PACD.

The PVO Co-Financing IV Project will shift focus to the further strengthening of local PVOs, and to increasing the proportion of Co-Financing to IIs that have become financially sound. This strategy will allow the Mission to capitalize on the success that the IIs have had in leveraging AID resources, while simultaneously reducing the management burden associated with the administration of PVO grants, and also assuring the continuation of PVO development activities in the event USAID funding levels are reduced. These IIs will assume leadership roles in expanding access to financial resources; strengthening PVO networks for disaster preparedness, mitigation and prevention; and increasing PVO capacity for policy dialogue and project coordination with national, provincial and local government units.

The evolution of the PVO Co-Financing Project represents a logical progression from the elementary phases of participatory development work to an increased emphasis on PVO sustainability and capacity-building. PVO Co-Financing I was designed to provide "basic necessities"; Co-Financing II moved toward the **participation** of beneficiaries in development activities, designed and implemented by PVOs. Co-Financing III worked on capacitation of PVOs to act as Intermediate Institutions, and Co-Financing IV will focus on further strengthening IIs and increasing co-financing to those that are financially sound, and on securing their own self-sustainability as well as the self-sustainability of their projects.

The PVO Co-Financing project has greatly expanded in scope and impact since it was first implemented in the 1980's. The following table provides a listing of grantees under the Co-Financing program. More than half of these projects were designed to increase income and generate employment. Three out of five conduct organizational and administrative capability-building activities for communities and PVOs. One third of the PVOs provide vocational and skills training, and one fourth conduct social services such as health, nutrition, and support for the environment.

B. Project Rationale

Widespread poverty breeds economic and social problems. It is estimated that half of the total number of Philippine households are classified as poor.[1] One cause of the widespread poverty has been the lack of sufficient productive employment for the country's rapidly growing labor force. Recurrent GOP budgetary deficits and reduced availability of public sector funding for community development activities has placed an added burden on communities striving to mobilize resources needed for development. PVOs play a vital role in helping communities that are only benefitting marginally from current economic growth, to develop sustainable and employment-generating development activities.

The country's poverty has been exacerbated in recent years by an economic policy framework that skewed investment and encouraged import-substitution at the expense of outward-looking reforms. Other causes of the high level of poverty could be attributed to the general downturn of the world economy, the steady erosion of the natural resource base through poor management and overcrowding, and by recurrent natural disasters.

Without financial management and training assistance, PVOs in the

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[1] Paul R. Krugman, James Alm, Susan M. Collins, Eli Remolona, "*Transforming the Philippine Economy*", NEDA/UNDP, p.63

PVO CO-FINANCING PORTFOLIO OF ACTIVE AND COMPLETED GRANTS

NAME OF GRANTEE	LOCATION	AMOUNT ($)	OBJECTIVES: Increased Employmen: Income	Environ't Resource Management	Health/ Nutrition	Education/ Training _1/	Develop PVOs	Community Partic'ptn
A. UNDER CO-FINANCING II (492-0367)								
1. Dev. of Peoples Fdn. (DPF II)	Davao del Norte	1,000,000	X		X			
2. Credit Union Nat'l Assn. (CUNA)	Nationwide	900,000	X					X coops
3. Save the Children Federation	Metro Manila	262,623	X		X	X		X
4. Ilaw International Center	Bohol	220,000	X	X		X		
5. Notre Dame Edu. Assn. (NDEA)	South Cotabato	200,000	X			X		
6. Jaime Ongpin Fdn.	Benquet	200,000	X			X		
7. SLU/EISSIF	Benquet	150,000	X			X		
8. Xavier Science Foundation	Mindanao	100,000					Minority	X
B. UNDER CO-FINANCING III (492-0419)								
9. The Asia Foundation	Nationwide	1,500,000 *		X			X	
10. Ramon Aboitiz Foundation, Inc.	Reg.VI,VII,VIII	1,200,000					X	
11. Phil. Business for Social Prog.	Nationwide	1,132,849 +					X	X coops
12. Phil. Business for Social Prog.	Nationwide	1,050,000	X			X		
13. Kauswagan sa Timogang Mindanaw	Davao	1,000,000	X	X			X	X
14. Dev. of Peoples Foundation	Mindanao	* 959,121	X		X		X	X
15. Ramon Aboitiz Foundation, Inc.	Reg 7 & 10	620,000	X			X	X	X
16. Phil. Bus. For Soc. Prog. (PBSP)	Provinces	500,000	X				X	
17. Phil. Center for Pop. and Dev.		500,000					X	X
18. Andres Soriano Foundation	Surigao del Sur	500,000	X			X		
19. Kapwa Upliftment Foundation	Davao	462,000			X			
20. Ayala Foundation	Cot.Dav.Pampanga	432,685	X				X	
21. Mother Rosa Memorial Foundation	Pampanga,N.Ecija	417,852	X				X	
22. Fdn. for Educ.Evol. & Dev.(FEED)	Reg.III,IV,V	400,000	X				X	
23. Notre Dame Educational Assn.	Gen.Santos/Cot	376,980	X					X
24. Tulay sa Pag-unlad, Inc.	Pamp.,Cag.de Oro	370,000	X				X	
25. Pilipinas Shell Foundation	Camarines Sur	360,000				X		
26. South Cotabato Foundation, Inc.	South Cotabato	325,000	X				X	
27. Microlink Philippines, Inc.	Metro Manila	325,000	X					
28. SERDEF	NCR and Palawan	325,000	X			X		
29. Actuator for Socio-Econ.Prog.	Pangasinan	320,000						
30. Xavier Science Foundation/EIL	Mindanao	310,000	X				X	
31. World Wildlife Fund	Nationwide	300,207		X			X	
32. Cooperative Housing Foundation	Neg.Occidental	300,000	housing				X	
33. Population Center Foundation	Reg. IV & V	300,000			X	X		
34. Medical Amb. of the Phil. (MAP)	Luzon, Mindanao	300,000			X	X		
35. Xavier Science Foundation, Inc.	Mindanao	280,000					x Minority	X
36. Negros Econ. Dev. Fdn., Inc.	Negros	265,297	X				X	X
37. Jaime V. Ongpin Foundation	Benguet	260,000	X			X		X
38. Credit Union Natl Assn.	Nationwide	250,000					X	X
39. Tulay sa Pag-unlad, Inc.	NCR, Iloilo,Bag.	250,000	X				X	X
40. Salesian Missions	Cebu,Neg.Oriental	250,000	X			X		
41. Lusok Projects, Inc.	Nueva Ecija	250,000	X		X		X	
42. Helen Keller International	NCR and Reg. VI	244,875			X		X	
43. Intl.Exec.Services Corps (IESC)	Nationwide	224,000	X			X		
44. Davao Independent Housing	Davao	215,000	housing			X		
45. Save the Children Federation	B.Tanyag,Taguig	200,000	X		X			X
46. Asian-Am Free Labor Inst(AAFLI)	Nationwide	200,000				X		
47. Mercy Corps International --	Iloilo	150,000	X			X		
48. Gerry Roxas Foundation	Capiz	150,000	X				X	
49. Notre Dame Educ. Association	Cotabato	150,000	X			X		X
50. The Andres Soriano Foundation, Inc.	Palawan	140,000			X	X		
51. Amanat Foundation	Jolo, Sulu	125,000	X		X		X	X
52. Feed My People International	Reg. V and NCR	114,159	X		X		X	X
53. Trickle Up Program Inc.	Silang,Cebu,Nav	100,000	X			X		
54. Phil. Business for Social Prog.	Nationwide	96,000					X	
55. Asian Institute of Management	Nationwide	93,200					X	
56. Tulay sa Pag-unlad, Inc.	Cebu	86,033 +					X	
57. Population Center Foundation		75,450					X	
58. Salesian Society	Cebu	68,000	X				X	
59. Kapwa Upliftment Foundation	Davao	56,000					X	
60. Negros Economic Development Fdn.		54,212					X	
61. Yakan Int.Resources Dev. Fdn.	Basilan	50,000	X				X	X coops
62. Yakan Ministry Foundation, Inc.	Basilan	50,000			X	X		
63. Maguindanao Development Fdn.	South Cotabato	50,000	X	X		X		X
64. Amanat Foundation	Sulu	50,000	X				X	X
65. Ramon Aboitiz Foundation, Inc.	Nationwide	31,500	X					
66. Bishop's Businessmen's Conference	Nationwide	30,000	X			x stretch		X
67. PBSP - Support Grant	Nationwide	30,000						
68. Population Center Foundation	Cebu	26,500				X		
69. Ramon Aboitiz Foundation, Inc.	Cebu	26,000					X	
70. Negros Econ. Dev. Foundation	Bacolod	25,000					X	
71. Ramon Aboitiz Foundation, Inc.	Nationwide	23,000					X	
72. Jaime V. Ongpin Foundation	Bangladesh	15,563						
73. Saint Louis Univ-EISSEF	Baguio	12,000					X	

Philippines are generally unable to generate the funding and management skills needed to mount sustainable community development programs. Many PVOs working with low-income communities, particularly those in remote rural areas, also lack the organizational skills needed to design feasible development plans.

USAID support to PVOs to date has resulted in the establishment of a sound institutional base of PVOs. This network is capable of launching an expanded effort to get a greater share of domestic capital resources committed to community development activities. Several of the country's leading PVOs, which have served as IIs under the PVO Co-Financing program, have already begun to explore ways of obtaining sustainable funding from sources other than USAID. At this time, however, the PVO community still needs donor support to strengthen its ability to establish and manage relending programs, to help keep GOP agencies focused on community needs, and to expand its reach to the country's most remote and disadvantaged communities.

1. Constraints on the role of PVOs' in Philippine development

There are three widely acknowledged constraints on increasing the PVO role in Philippine development today. The lack of funding or access to affordable credit is a paramount constraint. Often, the established, indigenous resource-base needed by PVOs is not there for them to draw upon. PVO beneficiaries are traditionally poor and located in remote parts of the country. Collateral and eligibility criteria effectively preclude PVOs and PVO beneficiaries from accessing established capital resources. In recent years, the need for additional funding has been exacerbated as many PVOs have taken on a greater development burden due to reduced funding levels of GOP agencies involved in community development. Also, due to fact that frequently financial sustainability is not featured as an activity administered by PVOs, there is a reliance on donor funding.

Lack of administrative (management and financial) skills is a second key constraint. In many cases, PVOs lack the requisite managerial, technical and financial skills to support activities such as credit operations and income-generating activities. It has been a painful lesson - but one worth learning - that the best of intentions cannot substitute for well thought-out planning, a reliable monitoring system, and an understanding of liability management skills and reflows.

Finally, there is a lack of coordination amongst the NGO/PVO community. Community development efforts in many parts of the Philippines are poorly coordinated. PVOs need an effective means to disseminate information, exchange experiences and learn from one another. The inclination of PVOs to exchange information and experiences is constrained by the lack of effective information management and exchange practices, and by inadequate networking. The identification and transfer of appropriate technology has also been inadequate.

2. Lessons Learned

The PVO Co-Financing I project delivered basic human needs such as health care to needy beneficiaries at the grass roots level. Under PVO Co-Financing projects II and III, the services gradually shifted from basic human needs, to support for community organization, credit cooperatives, and micro-enterprise development. During this evolution of project focus, a small group of PVOs was becoming sufficiently experienced in project management to act as IIs, identifying and preparing other PVOs to work at the grass roots level. This development has the potential to greatly expand project outreach, and to reduce the program management burden on the Mission. According to the findings of the mid-term evaluation of the PVO Co-Financing III project[2], these IIs are now able to take effective action on the issue of sustainability. The IIs recognize that *sustainable* employment and income-generating projects need to become a major thrust of PVO activities if work at the community level is to endure. This led to the development of *sustainable* credit programs and to greater emphasis on enterprise development; particularly loan reflow management. The implementation of community and group credit programs under the PVO Co-Financing III Project has already demonstrated that carefully planned and executed programs (in low-income communities with no credit history) can have successful repayment rates, of from 95 to 100 percent.

The three Co-Financing projects implemented to date have provided considerable support to PVOs that assist communities with projects aimed at increasing productivity and raising incomes. USAID assistance under PVO Co-Financing I, II, and III was also instrumental in helping to develop institutional capacities; especially for the development of IIs and for selected, smaller PVOs striving to reach ethnic and religious minorities in remote areas. The PVO Co-Financing program has also facilitated linkages among PVOs, cooperatives and GOP organizations. Both mid-term assessments of the PVO Co-Financing III Project, undertaken in December, 1989[3] and in December, 1991[4], noted that

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[2] Donald Dembowski, Jonathan Given and Tania Romashko, *Mid-Term Strategic Assessment of the PVO Co-Financing III Project* (Development Associates, Inc., 1991).

[3] Frederick F. Simmons, Randolph S. Lintz and Thomas Morris, *Strategic Assessment: PVO Co-Financing Project III* (Development Associates, Inc., 1989)

IIs in general are well-managed. The assessments further stated that IIs have effectively broadened the outreach of the PVO Co-Financing program through sub-grants to PVOs and through sub-lending programs, and have been instrumental in leveraging community development funding from non-USAID sources.

3. Greater Access to Funding

Low-income communities in the Philippines need greater access to domestic financial resources if they are to continue to improve their living conditions and contribute to broad-based economic growth. The historical PVO Co-Financing focus on social service programs and on micro-enterprise development has helped improve living conditions in these communities, but has not been adequate to the task of generating the levels of employment and increased income needed to sustain economic development and growth efforts. For this, communities will need to embark on expanded enterprise development activities and seek broader markets, a task that will require higher levels of managerial, technical and financial skills than have been acquired to date. It will also require expanded access to non-donor sources of funds.

Other than donors, the most promising sources of funding needed to carry out sustainable enterprise development activities in low-income communities are: (1) the revenues that will accrue to Local Government Units (LGUs) under the GOP's decentralization program; (2) the commercial banking establishment; (3) community-based funding sources such as traditional moneylenders and other informal financial intermediaries; and (4) reflows from activities developed and implemented by the PVOs. These four sources are discussed in detail as follows:

Net transfers of GOP resources to LGUs under the current decentralization program

Under the new Local Government Code (LGC), opportunities now exist for LGUs to directly provide financial assistance to PVOs/NGOs for the delivery of basic services. Analyses of the fiscal effects of the LGC, which is the basis for the GOP's current decentralization program, indicate that significant funding resources will be transferred to LGUs under the program. Revenue transfers from the national government to LGUs, which amounted to approximately P10 billion in 1991, are expected to quadruple to P40 billion by 1994. Along with the increased revenues, however, will come added responsibilities for supporting transferred staff and other program costs. Some LGUs will fare better than others in the revenue sharing scheme, but in the short run (over the next three years), it is not likely that there will be any significant net overall transfer of

[4] (Dembowski, et al)

discretionary resources to LGUs. In some cases, communities will be hard-pressed to generate the tax revenues needed to maintain local operations and services at their current levels. Over the long-term, however, with the increased resources and improved revenue sharing, LGUs may indeed prove to be an important source of domestic financial resources.

Commercial bank loan resources

Analysis of Central Bank data indicates that on the average, 90 percent of the commercial loans made in the Philippines are transacted in the National Capital Region (NCR). While it is true that credit extended in the NCR can be destined and used elsewhere, this data reflects the predominant role that Manila-based institutions play in managing funds available through the country's formal financial sector. Primarily because of the high risks involved and the attendant high transactions costs, commercial banks generally are not interested in providing loans to emerging businesses in low-income areas. One of the challenges of the PVO Co-Financing IV Project will be to find ways to facilitate PVO access to a greater share of these resources for use in financing enterprise development in low-income areas outside the NCR.

Community-based funding sources

Informal, community-based funding sources have traditionally accounted for the major share of the financial resources available to small entrepreneurs in rural areas of the Philippines. While these sources could be tapped further to finance expanded enterprise development activities, the cost of borrowing can be exorbitant. At present, available funding is in many cases barely adequate to sustain current subsistence levels of living, especially in the country's more remote low-income communities. Increased claims on community resources will likely emerge in future years as a result of LGUs seeking to mobilize the tax revenues needed to cover the cost of decentralized operations.

Reflows from Operations

Program income derived from reflows and interest earnings of credit and loan activities provide PVOs with a funding source which may be used in the next cycle of loan operations. Access to program income contributes to the self-sustainability of PVOs and helps to ensure the continuity of sub-project benefits after PACD.

C. Relationship to USAID Strategy

The overall goal of U.S. economic assistance in the Philippines, as articulated in the Philippine Assistance Strategy Statement[5] and confirmed by the recently completed Portfolio and Strategy Review Paper[6], is broad-based, sustainable economic growth through the active partnership of the public and private sectors in fostering open and efficient markets and an open society. The strategy for achieving this goal is centered on three objectives and three cross-cutting themes. The objectives are: (1) open and competitive markets (including necessary infrastructure support); (2) efficient provision of essential services; and (3) sustainable management of natural resources. The cross-cutting themes are: (1) policy reform; (2) private sector; and (3) democratic participation.

The PVO Co-Financing IV Project seeks to improve the socio-economic status of selected groups, including ethnic minorities, through participatory activities. These activities are designed to increase employment, production and marketing opportunities; expand access to capital and technical resources; and to increase availability and access to health care and other essential services.

The Project fits well within the framework of the USAID economic assistance strategy which aims to support the Government of the Philippines (GOP) in its effort to create broad-based economic growth through the active partnership of the public and private sectors. It recognizes the need for finding ways to "leverage" USAID resources fully, and looks to PVOs to provide the country's "marginalized" low-income communities with programs that will enable them to share in the benefits of economic growth.

Through grants to local and U.S. PVOs, the PVO Co-Financing IV Project supports the Mission's strategic objectives of more efficient delivery of essential services, and of strengthening PVO capabilities to promote efficient management of natural resources. By linking members of the PVO community and establishing access to formal and commercial sources of credit, the project promotes the Mission's strategic objective of building open markets and open societies. The project's participatory approach to development also aims to strengthen democratic participation at the local, regional and national levels.

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[5] Agency for International Development, "*Philippine Assistance Strategy U.S. Fiscal Years 1991 - 1995*", July 1990

[6] USAID/Manila, Draft Document for Discussion with the Asia Bureau, "*Portfolio and Strategy Review Paper*", April, 1992

The project supports, directly and through IIs, Philippine organizations that work at the grassroots level and contribute to decentralized development and policy formulation. It seeks to build the competence of IIs, and networks to provide assistance to smaller PVOs. These smaller PVOs are supported in activities such as low cost housing and micro-enterprise development, which demonstrate the benefits of participatory development, policy dialogue, and project coordination with national, provincial and local government units.

Operationally, this strategy framework implies that we will continue to work through NGOs to reach disadvantaged populations more effectively, to involve the private sector in community development programs, and to foster disaster prevention, mitigation, and preparedness through the capicitation of PVO networks.

D. Relationship to GOP Objectives

The PVO Co-Fi IV project is consistent with and supports the Government of the Philippines' development strategy. The Philippine Medium-Term Development Plan (1987-1992), focusing on the country's lagging rural areas, lists the following policy foci:

- greater reliance on market forces and private sector initiative as an engine of growth;
- improvement in GOP service delivery systems;
- decentralization of institutional responsibilities and functions for development planning and administration.

The Philippine Agenda for Sustained Growth and Development adopted in 1989 places high priority on the need to alleviate poverty through greater production and employment generation, improved income distribution, and development of the human capital potential of the Philippine population.

Tandem to these foci, the GOP development plan acknowledges the need for all sectors of society to participate in the development process. These sectors should complement GOP efforts to upgrade the capabilities of LGUs, and will assist the LGUs to plan, manage, monitor and evaluate development projects. Part of this strategy includes the harnessing of the private sector and NGOs/PVOs in the development planning and administration process.

Over the past six years, the GOP has begun to recognize PVOs as a potent force that serves as a two-way channel to articulate the needs of those requiring assistance, and also to help the GOP address these needs - particularly in the remote areas of the country that have not been reached by any kind of assistance. It recognizes that the delivery of social services will be made more effective through the increased participation of local communities and NGO/PVOs.

E. Donor Coordination

Donor coordination under this project will be accomplished through formal and informal contacts with other donors, such as the Canadian International Development Agency (CIDA), the Australian International Development Bureau (AIDAB), the United Nations Development Program (UNDP), the British Council and the European Economic Community (EEC), and the Japan International Cooperation Agency (JICA), as well as the PVO community.

Among donors supporting PVO activities, CIDA has the largest portfolio, with $35 million allocated for a three year period. CIDA-supported programs include assistance in institution-building, leadership and management capability-building, socio-economic development programs, policy development, technical assistance, and support for women NGOs, all of which is undertaken through a collaborative partnership of Canadian and Philippine NGOs. CIDA has initiated complementary programs with other donors to facilitate information exchange on grants provided to the PVOs in the Philippines.

This project will complement the activities of other donors by strengthening the PVO sector, and by improving coordination and linkage building through the development of a proposed database of PVO and NGO activities. The database will include a description of each PVO's financial, managerial and technical capabilities along with a summary of its current community development activities. It will also provide a method of keeping track of the various types of activities being undertaken by PVOs, regardless of the source of financing.

II. PROJECT DESCRIPTION

A. Project Goal and Purposes

The goal of the PVO Co-Financing IV Project is to improve the socio-economic status of selected groups, including ethnic minorities, through participatory development activities. Achievement of this goal will require expanding the capacities of both local and U.S. PVOs to plan, finance, monitor and implement activities designed to increase employment, production and marketing opportunities; expand access to capital and technical resources; better organize communities; and increase access to health care and other essential services.

The specific purposes of the Project are: (1) to strengthen the well-established PVOs to serve as IIs while assisting smaller PVOs in efforts to provide basic services and expanded employment-generating opportunities; and (2) to expand the participatory and advocacy capabilities of PVOs to enhance policy dialogue, facilitate project coordination and coordinate disaster preparedness, mitigation and prevention relief efforts at the local, regional and national levels.

B. Purpose-level Indicators

Indicators to appropriately measure this project's contributions include the following:

- The number of IIs will be increased, will cover a wider geographical area, and will have greater reach in serving distant communities.
- IIs will be trained and better equipped to provide technical assistance and training to sub-grantees.
- Increased credit access by PVOs to funds of banks and donors.
- Ethnic minority PVOs will develop sub-projects to benefit their own communities.
- An intermediate institution will have been established to serve ethnic minority PVOs.
- PVOs will develop sub-projects in land tenure, housing, health-care, and sanitation, and will expand the capacity of communities to support sustainable and employment-generating natural resource management programs, such as community woodlots and construction of artificial reefs.
- Increased income generation and self-help capacity of community-based beneficiary organizations.
- Collaboration between PVOs and LGUs will be greatly strengthened.
- A database will be created to better network all PVOs in the Philippines.
- Increased PVO/NGO networking for disaster preparedness, mitigation and prevention.

The Project will result in an increased number of PVOs prepared to serve as IIs. The increased use of IIs for program management will lessen the management and oversight burden of USAID. At the same time, it will widen the impact of the PVO Co-Financing program and extend projects into areas that would be difficult for USAID to reach on a cost-effective basis.

C. Description of Project Components

The PVO Co-Financing IV Project is envisioned as a five-year activity requiring $20 million in AID grant financing. The project will include the following four components:

1. Capability-Building Component

a. Leverage Funds

This component is designed to increase the capacities of IIs and smaller PVOs to leverage funds and support more extensive community development activities. The major share of Project resources will be directed through block grants toward increasing the capacities of IIs to finance and manage PVO Co-Financing sub-activities. In addition, technical assistance and training will be included in this component to enhance the cost-effectiveness of PVO Co-Financing IV operations. Established IIs will utilize sub-grants and sub-lending programs to reach outlying beneficiary populations without having to increase markedly the size and complexity of their organizations. They are also generally able to replicate successful approaches efficiently.

One indigenous PVO organized in 1981, that currently functions as an II under the Co-Financing program, has achieved considerable success in leveraging funds through its relending programs and technical services activities. Its clientele is comprised of micro- and small-enterprises in low-income communities. Based in Manila, this II now has branch operations in six provinces located in Luzon and in the Visayas. It is expected to play a leading role under the Co-Fi IV Project assisting other IIs and PVOs in their efforts to expand community credit and enterprise development programs.

Several other PVOs have also served effectively as IIs under the PVO Co-Financing program, and will warrant consideration for additional funding under the proposed PVO Co-Financing IV Project. Livelihood or income and employment-generating enterprise development activities have been a key focus of their assistance programs. Most, like the Development of People's Foundation (DPF) in Davao and the Ramon Aboitiz Foundation, Inc. (RAFI) in Cebu, have a broad community development orientation that includes community organization, health services, child care, water supply improvement, and environmental conservation and rehabilitation activities.

As noted earlier, the country's commercial banks have been identified as a promising source of funding needed to carry out expanded livelihood and enterprise development activities in low-income communities. A key strategy of this first component of the PVO Co-Financing IV Project will be to demonstrate to commercial banks that it is good business to provide credit to micro-enterprises being developed outside the Metro Manila area, as they grow from micro to small and medium enterprises during the life of the project.

A Philippine law referred to as the "Magna Carta for Small Business"[7], requires that commercial banks set aside a portion of their loan portfolios for micro, cottage and small business lending over the next seven years. The Act is designed to promote, develop and assist small and medium-scale enterprises through the creation of a Small and Medium Enterprise Development Council. The Act will also influence the rationalization of government assistance programs and agencies concerned with development of small and medium enterprises.

The Small Business Guarantee and Finance Corporation (SBGFC), with an authorized capital stock of 5 billion pesos, will be established from a pool of funds to be contributed as equity investments by various parastatal banks, the Social Security System, and the government Service Insurance System. Additional funding is to be obtained under Section 13 of the Act from the commercial banking sector. A total of 5 percent of commercial banking loan portfolios will be designated for this purpose until January, 23,1992; 10 percent by January, 1993 to January 1996; and then cycling down from 5 percent to zero from January 1997 through January 23, 1998.

At the 5 percent rate, the amount that will conceivably be mobilized from commercial lending institutions could amount to Pesos 20 billion, and Pesos 40 billion at the 10 percent rate. However, the Act does provide an "escape clause" by deeming those banks purchasing securities which may be offered by the SBGFC as in compliance with the Act. How this may affect commercial banks' lending to small and medium enterprises under the Act, has yet to be determined.

Establishment of the FUND

An initial undertaking of the PVO Co-Financing IV Project will be to provide established IIs and other PVOs with the technical assistance needed to put together a proposal for the establishment of an investment fund ("FUND") for low-income communities. The proposal will be presented to a select group of

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[7]Republic Act No. 6977, implemented by Central Bank of the Philippines Circular No. 1288, Series of 1991, dated June 4, 1991

commercial banks, seeking their agreement to commit as much as P1 billion to the fund. The fund will be accessed on a loan basis by business enterprises, community development organizations, and community credit cooperatives. PVO Co-Financing IV funds from this component will also be used to finance the technical assistance required to help community clients qualify for loans from the FUND, by preparing feasibility studies and providing PVOs with assistance in monitoring and servicing the loans. Funding from the PVO Co-Financing IV Project will be used to support PVOs in this effort, in the expectation that it will succeed in demonstrating to the banking community that providing credits for enterprise development in low-income communities is commercially feasible, and can be profitable. It is expected that successful operation of the proposed fund under the PVO Co-Financing IV Project, will induce commercial banks to continue support for the FUND beyond the project's assistance completion date (PACD).

The establishment of the FUND will go forward under the Co-Fi IV Project, even if commercial banks do not commit funds to the undertaking, though on a more modest basis. In this event, PVO Co-Financing IV resources will be used to leverage non-USAID resources from other donors and from the communities themselves. Tulay Sa Pag-unlad, Inc. (TSPI) experience with community-based enterprise credit programs indicates that such programs can effectively mobilize non-USAID funds through relending operations, by a factor of 4 or 5 to one. Moreover, as noted earlier, there is scope for tapping informal, community-based sources of funds to finance expanded enterprise development activities, though it is limited in many cases and more costly.

b. Promoting IIs

The process of strengthening PVO capabilities includes increasing the number of PVOs that are able to act as IIs, so as to widen the impact of community development programs, especially those which fall clearly under the Mission's development strategy in a cost-effective way, and lessen the management and oversight burden of USAID.

PVO Co-Financing IV will rely more heavily on IIs to administer the Project than did its three predecessors. The rationale is essentially as follows:

(1) Established IIs have demonstrated themselves to be cost-effective means of delivering resources to low-income communities in outlying areas;

(2) Capacitation of IIs strengthens the management structure of the PVO community; and

(3) IIs reduce the management burden of the USAID.

Under the Project, it is expected that there will be three groups of interacting PVOs: (1) those already serving as IIs that are qualified to manage sub-grants, sub-lending programs, technical assistance, and training programs; (2) those selected to become IIs; and (3) those that will remain as free-standing or special-purpose PVOs. It is anticipated that this institutional structure for implementing Co-Financing IV will be fully in place by the end of the second year of project operation.

To be selected, a PVO will be required to meet the following criteria:

Organization: The PVO must have had a minimum of three years operation as a PVO; must have demonstrated technical and administrative ability in project design, analysis and implementation as well as in day to day financial and program management. The PVO must also have demonstrated project development skills for the types of activities to be undertaken; and must have a clear set of institutional objectives in place.

Staff: The PVO must have professional staff who are career employees or otherwise committed to significant long-term involvement in the activities of the PVO. Similarly, it must have field staff either located in the communities to be assisted, or otherwise positioned so as to be able to monitor the implementation of assistance activities efficiently. PVOs must have adequate technical and administrative skills to implement the project.

Financial sustainability: The PVO must have funding adequate to maintain core staff in the Philippines from sources other than USAID. The funding must be sufficient to meet the USAID's 25 percent minimum counterpart contribution requirement, and to cover the contingent liabilities of sub-grantees.

Management skills: The PVO must have the skills needed to manage sub-lending activities. If it proposes to engage in credit or relending operations, the PVO should have the requisite financial and economic analysis skills, and should be knowledgeable regarding the use of collateral and loan collection techniques. It will also need to have demonstrated ability in evaluating the feasibility of proposed enterprise development activities.

Location: The PVO should be located geographically (or have its project sites located) in an area not within the operational reach of an existing II. The area should be generally characterized as low-income, and populated by religious or ethnic minority groups.

The skills identified in the last two criteria above, are illustrative of the kinds of skills needed to manage enterprise development programs. The Project will offer training in these areas for PVOs in need of it. USAID shall conduct a technical and administrative capability assessment of block grant proposals from prospective IIs prior to provision of grant assistance.

c. Support to Free-Standing or Special Purpose PVOs

PVOs registered with the USAID, other than those operating as IIs, will continue to receive grants under the PVO Co-Financing IV Project for community development and disaster activities, especially those which fall clearly under the Mission strategy, through either the IIs or directly from the USAID. Priority will be given to projects and programs that demonstrate alternative approaches to developing sustainable income and employment-generating micro-enterprises, and to increasing beneficiary access to commercial sources of credit. Grants will also continue to be given to PVOs engaged in implementing cost-effective community health care programs, construction of water supply and sanitation facilities, and in expansion of beneficiary access to housing.

Particular attention will be given to proposals that provide for alternative income-generating schemes that enable natural resource conservation and rehabilitation programs to come to fruition (e.g., reforestation). Priority will also be given to projects that strengthen PVO capacities to foster disaster prevention, mitigation and preparedness.

Examples of organizations - other than major NGO intermediaries - that possess particular expertise in strengthening the capacities of other PVOs are:

- Tulay Sa Pag-unlad (TSPI); with programs in small enterprise development for entrepreneurships that cannot access the commercial lending sector. It provides loans and training to micro and small enterprises that show the potential to create jobs and income opportunities;

- Development of People's Foundation (DPF), working to raise the quality of life of the rural and urban poor through improvement of their health and socio-economic condition. DPF possesses particular expertise in the fields of leadership development, community organization, cooperative organization, and management of microenterprise credit programs among cultural and religious minorities;

- Notre Dame Educational Association (NDEA); major programs include training in microenterprise development, education, and health. NDEA also works with religious and minority groups in southern Mindanao;

- Citizen's Disaster Response Center (CDRC), works with smaller NGOs and peoples organizations in disaster planning assistance, feasibility studies, training of disaster responders and planners. It also possesses expertise in organizing the "non-vulnerable sector" in support of the relief and rehabilitation efforts initiated by victims themselves;

Mother Rosa Memorial Foundation (MRMF) encourages smaller organizations in the rural sector in the fields of community-based health, agribusiness cooperative development, and disaster response. MRMF has concentrated in working with NGOs and local peoples organizations in Region III. Thus, it has been active in mounting relief and rehabilitation assistance to victims of the Mount Pinatubo eruption.

2. Broadening PVO Coverage Component

A concerted effort will be made under the Project to support the establishment of a larger number and more diverse group of indigenous PVOs, especially those representing ethnic and religious minorities in the more remote areas of the Philippines. The emphasis on fostering minority PVOs is important because development of activities in areas inhabited by ethnic and religous minorities has lagged behind those of mainstream communities in the Philippines. It is in these areas that the greatest challenges to development can be found.

Tribal and religous minority groups inhabit southern Mindanao, the Sulu Archipelago, and remote areas of Luzon and the Visayas. Estimates of their numbers vary, but there are believed to be as many as six million hill tribes and Muslims according to National Statistics Office surveys made in 1986. These are people, such as the Aetas, Badjaos, Tiboli, and Yakan, that were least influenced by the mainstream Christian-Hispanic culture that permeates most of the Philippines. For the most part, they have been able to preserve their unique cultures and lifestyles which include cooperative work exchanges, communal rituals, and folklore.

In the 1970s, the GOP made considerable amounts of money available for development of minorities. However, most of the projects were short-lived and produced little in the way of sustainable benefits. Most development interventions in cultural and religious minority areas floundered due to lack of managerial experience and skills, government interference, and due to suspicion and mistrust among the beneficiaries toward the project-holders themselves. The influx of NGOs offering material and financial aid in recent years has provided new opportunities for minority groups. In addition, the NGO community, their ranks now increased by tribal and Muslim organizations, have developed additional experience and expertise in implementing development efforts in minority areas.

During the early stages of Co-Financing IV, an assessment of PVOs operating in areas inhabited predominantly by ethnic and minority groups will be undertaken to determine the extent to which their needs for basic services are being met. The assessment will also determine whether alternative approaches need to be pursued, such as whether Muslim groups in western Mindanao should be encouraged to establish and manage their own II, and be given the resources to construct a training and handicraft marketing center in Zamboanga.

3. Strengthening PVO Coordination and Advocacy Component

PVO Co-Financing IV will allocate resources to strengthen PVO networks and their capacity to interact with community organizations, private sector enterprises, and GOP program managers at the local, provincial, regional and national levels.

Existing PVO networks, and those yet to be developed, will collaborate and share experiences in implementation of projects. For example, methods for micro-enterprise development, strategies for securing formal and informal sources of credit at commercially competitive rates, ways of expanding access to affordable housing, and methods for dissemination of appropriate and sustainable technology in potable water, health care, and sanitation, are all experiences that will be shared and developed. It is expected that PVOs working in networks and individually will involve government units, especially at the local level. This will result in policy dialogue and sharing of information and strategies for development interventions in these areas.

A corollary objective is the promotion of collaboration of experiences among local government units, PVOs, and community groups in tackling problems related to agrarian reform; in ensuring post-project sustainability of benefits; and in efforts for disaster prevention, mitigation, and preparedness.

By the end of project implementation, it is anticipated that USAID, through the PVO intermediate institutions, will have:

a. broadened its coverage to a larger number and more diverse group of indigenous PVOs, local peoples organizations, especially those representing ethnic and religious minorities in remoter areas of the Philippines;

b. expanded the number of sustainable employment-creating small and microenterprise development activities, involving appropriate technology transfer through increased PVO-LGU interaction;

c. helped achieve closer coordination in carrying out project activities, thereby increasing access to credit, facilitating agrarian reform, creating employment, supporting health and sanitation, and strengthening management of renewable natural resources such as coastal fisheries and community forest woodlots; and

d. strengthened linkages among networks of PVOs, peoples organizations, private sector enterprises, and GOP managers at the local, provincial, and national levels in disaster prevention, mitigation, and preparedness.

With the passage of the Local Government Code, the need for re-education, reorientation, and retargeting of local NGO/PVO and LGU partnership will be an important consideration in this component. The project will introduce to PVO staff key features of decentralization and other GOP policies that impact on community development efforts, and will provide training to enhance their abilities to serve as advocates at the national, regional and local levels. The existing networks will be utilized to ensure that policy problems or issues raised at the community level can be elevated for discussion at the provincial or higher levels, if that is what is needed to facilitate their resolution.

Funding and other assistance in this sector will be channelled through one or more broad-based and established IIs that can ensure adequate management, and maximum access to smaller PVOs/NGOs. Examples include, but are not limited to, the Philippine Business for Social Progress, Ramon Aboitiz Foundation, Development of People's Foundation, Negros Economic Development Foundation, and the Asia Foundation, among others. Priority in the allocation of funds will be given to activities aimed at:

- Demonstrating to beneficiary community groups the benefits of advocacy as a means of fostering policy dialogue and promoting project coordination with national government and LGUs.

- Promoting policy dialogue and project coordination between PVOs, community beneficiary groups, and the GOP concerning problems, like land tenure and stewardship, sustainability concerns, and the role of community groups in carrying out grant-funded sub-project activities.

- Strengthening the capacities of grass roots organizations to monitor the quality, responsiveness and coverage of GOP services.

- Supporting, directly and through IIs, Philippine policy research organizations that work at the grassroots level and contribute to decentralized development and policy formulation.

- Increasing the extent to which PVO networks are used to delineate important community development issues, and to coordinate disaster preparedness, mitigation and prevention efforts in cases of natural calamities.

Support for an Umbrella Organization

Project resources will also be used to support local PVOs in their efforts to form an umbrella organization to support advocacy, policy dialogue initiatives and strengthen their policy research and advocacy capabilities. The organization that oversees the operation of the proposed network will also serve as a clearinghouse for PVO activities, and for information dissemination on GOP and donor-funded community development programs.

PINOI, an association of PVOs formed in 1990, which includes in its membership virtually all of the PVOs that USAID has worked with under the Co-Financing program, is the most logical candidate to preside over this effort. Although a number of established PVOs have articulated the need for an overall coordinative organization, PINOI has not enjoyed great organizational success to date. Building the organizational and management capacities of an umbrella group will be an objective of the PVO Co-Financing IV Project. Initially, this umbrella group could be based in an II training center. The association that is chosen for this position will need permanent offices, a qualified and committed Executive Director, and office staff and equipment sufficient to take on the responsibilities envisioned.

Establishment of a database

This component of the PVO Co-Financing IV project will provide technical assistance and funding estimated at $100,000, to help develop a computerized database initiated by the UPEcon Foundation, as part of evaluation activity. This will serve as an information resource on PVO projects and will provide quick access to gender-sensitive information on and for the PVO community. Initially, the database will compile and maintain an inventory of member PVO capabilities and activities, and will serve as an information source for USAID, other donors, and member PVOs. The database will include gender-disaggregated data on PVO projects. The database will contain updated information to be provided on a regular basis by members of the PVO network. There are several options on the management of the database. It could be maintained by a) one of the three USAID-funded training centers; b) an umbrella organization (e.g., PINOI) or c) a local consultancy firm. Eventually, it will be expanded to include community-related research and development activities, and will be linked to existing regional and worldwide networks of economic development information.

It is expected that ultimately all of the country's major PVOs will be linked to the database and have ready access to the information necessary to implement project activities. Consideration will also be given to the establishment of links to the Department of Trade and Industry (DTI) market information system, when that system comes on line in the next 2 to 5 years. This would be especially useful to PVOs working in micro-enterprise development.

4. Monitoring, Evaluation and Audit Component

Funding will be provided under this component to ensure that monitoring systems and data gathering procedures are in place and functioning throughout the life of the project. Also, funding for special assessments, monitoring of counterpart contributions, mid-term and final evaluations, and audits will be identified under this component. This may include assessments of financial management systems of the PVOs/NGOs to establish their effectiveness in meeting the terms and conditions of the grants, and financial monitoring activities to test the fiscal integrity of financial transactions, as well as to check the accuracy and reliability of financial reports.

D. Management Approach

1. IIs as Channels of Funds

PVO Co-Financing funds will be channelled primarily through IIs for the following activities: for training; to leverage additional resources; to help build advocacy networks; and for grants and sub-loans to smaller PVOs.

In implementing the PVO Co-Financing IV Project, USAID will work primarily through established IIs and PVOs, to utilize their existing institutional strengths and capacities.

USAID will provide grants, management support and consulting services to established IIs, and to PVOs just beginning work as Intermediates. The grant funds will be used for sub-loans or grants to other PVOs, cooperatives and community organizations, and for training programs to upgrade PVO technical and financial management skills. USAID funds will also be used by the IIs to strengthen information linkages and networking among PVOs.

Free-standing and special-purpose PVOs registered with the USAID will continue to receive grants under PVO Co-Financing IV for community development and disaster activities, either through the IIs or directly from the USAID. As indicated earlier, priority will be given to projects and programs that demonstrate alternative approaches to developing sustainable income and employment-generating micro-enterprises, and to increasing beneficiary access to commercial sources of credit.

PVO Co-Financing IV will continue the USAID practice of awarding 3-year grants. The limited scope of most sub-projects is such that they can be completed within a three-year period. Extensions beyond three years will be considered when necessary to achieve project objectives.

Community cooperatives will also be used as channels for community development, and to demonstrate alternative approaches to achieving objectives, where feasible.

2. Use of Credit Reflows

Many grantee activities under the PVO Co-Financing Project will be income-generating projects that involve loans to cooperatives or micro and small enterprises. These activities earn interest and eventually result in the repayment of the capital provided. They are becoming an increasingly important feature of PVO Co-Financing activity as IIs and PVOs take steps to assure their own sustainability.

Both the interest earnings, and the use of reflows for relending purposes, represent successful leveraging of USAID funds. It is anticipated that reflows, and the related income from interest, will become the primary source of II funding, once the commercial credit thrust of the PVO Co-Financing IV project becomes operational. Almost all current Co-Financing IIs are engaged in lending and relending activities. All of the IIs, and depending upon their credit management capacities, many of the PVOs involved in the PVO Co-Financing IV Project, will be encouraged to engage in relending programs.

Under the Co-Financing IV Project, the revolving credit activities will be monitored for one year after the terminal date of the subgrant. Co-Financing activities are subject to audit by the Regional Inspector General/Audit (RIG/A) and the Government Auditing Office (GAO) for a period of three years after the PACD. PVO grantees and subgrantees will be required to retain books and records for three years after the date of the last disbursement.

3. Increasing access to alternative sources of funding and technical assistance

This project is focused on using the USAID contribution to leverage resources from non-USAID sources. In the PVO Co-Financing III Project, it was demonstrated (see Annex G) that by using the leveraging technique it is possible to mobilize resources several times the amount of the USAID grant. This should become even more important in Co-Financing IV as the project facilitates access to credit by micro and small enterprises.

PVO Co-Financing IV will give particular attention to getting commercial banks involved in the Project's activities as a source of credit, and technical and financial management assistance.

IIs and PVOs will also be encouraged to pursue other avenues to gain support for their programs, including:

- Fund and grant solicitations from foreign and local funding institutions and concerned organizations, including the Government.

- Creating income-generating business units within their own organizations, e.g., consultancy services, research contracts, feasibility studies, training programs, sale of publications.

- Accessing interest earnings from bank deposits of grants and trust funds, and loans to beneficiaries.

- Compounding interest on loans to sub-project beneficiaries by relending loan reflows including interest earnings.

- Setting up and directly managing income generating projects.

4. Facilitating PVO and LGU coordination

It has been noted earlier that LGUs may become important sources of funding for community development activities over the long-term. It will therefore be important that there be close coordination at the community level between PVOs, LGUs, and community groups and organizations, to ensure that such resources are used wisely. Emphasis will be given under the PVO Co-Financing IV Project to encouraging PVO/LGU collaboration so as to bring greater resources to bear on a given problem and to maximize impact. In line with the USAID's current long-term development assistance strategy, Co-Financing IV will emphasize the public-private "partnership" aspect of PVO/LGU collaboration.

5. Training and Technical Assistance

Training and technical assistance has been a centerpiece of the PVO Co-Financing Program's efforts to increase and strengthen the management capacities of PVOs. In recent years, an AID contractor has been instrumental in providing financial management workshops for PVOs; with USAID directly conducting program design and implementation workshops. This two-pronged approach will be continued under the PVO Co-Financing IV Project.

Since the emphasis of the Project is on assisting PVOs to become IIs and helping them find ways of accessing non-USAID sources of funding, training and technical assistance will continue to play a vital role in preparing the staffs involved to take on greater financial management responsibilities. The training and technical resources to be provided under PVO Co-Fi IV will be prepare sub-grantees for their ultimate role of providing training and consultancy services to community beneficiaries.

In view of the Project's emphasis on the development of employment and income-generating activities, the Project will also provide support for the training of PVO staff and beneficiaries in enterprise-related skills such as accounting, credit management, financial monitoring, and market development. PVO requirements for technical assistance to facilitate access to commercial credit and other sources of finance, will also be given special consideration.

Regional training centers

Under the PVO Co-Financing III Project, USAID awarded grants to each of three IIs for the development of regional training centers: Philippine Business for Social Progress (PBSP), for the establishment of the Social Development Center in Manila to serve Luzon; the DPF in Davao, for the construction of the Mindanao Training Resource Center; and to RAFI in Cebu City, for the establishment of the Development Studies Center to serve the Visayas.

Steps will be taken under the PVO Co-Financing IV Project to ensure that these three Regional Training centers become centers for enterprise development, as well as centers for advocacy. In addition, they will work to develop regional databases of PVO operations, to be consolidated under the central PVO coordinative mechanism - once it has been established.

Programs conducted in these centers under the PVO Co-Financing IV Project will include intensive training in management skills needed for effective project design, management and implementation; adult education and literacy training; community organization workshops; training in basic health services; micro-enterprise development; and in disaster management. The Centers will also continue to train entrepreneurs in the preparation of feasibility studies, creating and managing small business operations, and financial management.

PVO Co-Financing IV will also establish linkages to the country's economic, social and business research institutions; in particular with those engaged in research and training activities related to the purposes and objectives of the PVO Co-Financing program.

E. Project Inputs

1. Grants to IIs and PVOs

The Project will provide block grants to at least 9 PVOs that are either functioning as IIs or that have the potential and desire to graduate to II status. This component will emphasize the capacity of IIs to finance and manage a variety of activities, but with extra emphasis placed upon accessing non-USAID sources of credit for enterprise development and other types of income generating projects (IGPs). Up to $8 million may be used to leverage PVO access to commercial credit at market rates of interest. It is anticipated that this activity will leverage as much as $40 million (equivalent) in commercial credit, and will demonstrate the financial viability of extending credit to areas outside Metro Manila.

Further strengthening of established IIs will require grants that in turn will finance other PVO sub-projects. Grants will also be provided to five PVOs newly established as IIs, and will be used in their sub-grants to help support sub-projects of other PVOs.

Funds for training in accounting, credit management, financial management and enterprise development will be provided for II personnel. Some technical assistance in banking, credit and financing will also be included. Emphasis will be placed upon credit for enterprise development and other types of income-generating projects (IGPs). Funds may be used to leverage II access to commercial credit at market rates of interest.

In order to expand self-sustaining, participatory, development activities of PVOs not being covered by IIs, PVO CO-FI IV will provide grants for the sub-projects of these PVOs. These grants will provide for training and technical assistance in alternate sources of credit, land tenure, housing, health-care, sanitation and natural resource management.

In addition, the project will support other special and unique participatory development opportunities including, but not limited to, natural resource and environmental activities, health, water, sanitation, housing, IGP's, disaster assistance, literacy training, rural development, training, technical assistance, conferences, and a database.

2. Expanding PVO coverage of ethnic and religious minorities

A training and marketing center of modest size located conveniently for the Muslim population will be required if expanded PVO coverage of ethnic and religious PVOs is to continue. It also anticipated that the project could increase the number of minority PVOs from 3 to 6, with one minority PVO capable of functioning as an II by the end of the project.

3. Strengthening PVO Capacity for Advocacy, Policy Dialogue and Coordination

To achieve this objective the Project will finance the strengthening of a PVO umbrella organization (PINOI is a candidate). The organization can become an information and research center for development activities by maintaining data bases on PVO activities.

4. AID direct contracts

Through AID direct contracts, AID will implement activities under the identified cost elements of the project-- grants to PVOs, project development, project monitoring/audit, technical assistance, training and seminars and evaluation.

The Project will be managed, as is the case with Co-Financing III, with two Americans and two FSNs to work at USAID as project consultants. These staff will assist in the development of project proposals; maintain liaisons with PVOs; provide general guidance on AID requirements and procedures; discuss with PVOs any USAID concerns or problems; and prepare project status reports and make recommendations to the Chief of OFFPVC.

This "core staff" is necessary to identify, prepare, and vet through the Mission clearance process, the 10-15 grants that will be made each year. In addition, PVO Co-Financing IV project staff are required to monitor work of grants to both PVO intermediaries and single organizations with special purposes. Staff will also monitor the contract firm carrying out financial monitoring of IIs, conduct project development and management seminars, and coordinate the review of recipient contract audits.

A contract with an accounting or management services firm for financial and operating monitoring is necessary. Since it is USAID's intention to have IIs take over the financial monitoring role of the AID contractor, the project will monitor only a sampling of sub-grantees during the first two years. In the last three years, this would be reduced by 30 percent so that sub-grantee monitoring by the AID contractor would be eliminated. With the required annual non-federal audit for grants, the Project anticipates that the financial systems and procedures will be greatly improved even for the new PVOs.

Through AID direct contracts, funds will also be provided for 24-person months of consultants to assist the PVO communities in establishing and implementing the access to commercial credit component. This technical assistance category could also include assisting an association of PVOs (i.e., PINOI) in developing their proposed database.

F. Project Outputs and Beneficiaries

1. Project Outputs

The Project is expected to result in a network of approximately 130 Philippine PVOs that are capable of providing a broad array of development support services to community organizations and community-based enterprises in the more remote rural areas of the Philippines. These PVOs will be able to generate, primarily from non-USAID sources, the resources needed to sustain their development support activities.

By the end of this five-year project, the following will have been achieved:

- Broader coverage of four already-established IIs.
- Elevation of five PVOs that have increased their capacity to become IIs.
- Between forty and fifty sub-projects that include emphasis on income-generation, housing, health care, sanitation and natural resource management.
- Eighteen to twenty-four sub-projects started by ethnic minority PVOs.
- One ethnic minority PVO capacitated to act as an II and serve other ethnic minority PVOs.
- A database initiated that will provide for a network among all PVOs in the Philippines.
- PVOs able to generate from non-USAID sources the resources needed to sustain their own operations and those of selected sub-project activities.
- Strong PVO networks prepared for disaster preparedness, mitigation, and prevention efforts at the local, regional and national levels.

2. Beneficiaries

The ultimate beneficiaries of the PVO Co-Financing IV Project will be the residents of low-income communities and disadvantaged sectors, such as women, youth, farmers and tribal ethnic minorities for whom specific livelihood, and income-generating and community development activities will be created. Anticipated outputs will enable them to enjoy a better quality of life through improved health and nutrition, increased literacy, increased income and improved water supply. This is especially true for the Islamic tribes in Central and Western Mindanao, and ethnic minorities in Northern Luzon, Eastern Mindanao, Samar and Leyte, to whom this project gives special consideration.

This project will directly benefit IIs as well as other PVO networks and their target beneficiaries in disaster-prone areas of the country.

III. IMPLEMENTATION ARRANGEMENTS

A. Implementing Entities, Roles and Responsibilities

Management of the PVO Co-Financing IV Project will be as follows:

1. GOP

The requirement under PVO Co-Financing Projects I and II, that PVOs secure endorsement of the National Economic and Development Authority (NEDA) for their projects upon approval by USAID, led to delays in project implementation. Under a subsequent agreement incorporated in the amendment to PVO Co-Financing II, PVOs are no longer required to secure formal NEDA approval. However, they are expected to develop subprojects "in consultation with" NEDA regional offices. Specifically, PVOs are expected to submit their subproject proposals simultaneously to USAID and the Regional Development Office (RDO). This permits permit the RDOs to review the proposals for conformance with the regional development framework as well as affording an opportunity to suggest improvements, etc.

The RDOs are given 30 working days to make comments or recommendations to the PVOs for incorporation; if none are submitted it can be assumed that the proposal is acceptable to NEDA. RDOs may monitor project progress and be invited to participate in project and subproject evaluations. OFFPVC periodically sends relevant reports to NEDA to keep it informed of project status, and to enhance its monitoring and evaluation of PVO activities.

2. IIs

Subproject management, implementation, and reporting are entirely the responsibility of the IIs. These will include, are not limited to, the following responsibilities:

(1) Overall accountability for the performance and financial management of subgrantees;

(2) Provision of required technical, organizational and logistical training and other guidance as necessary to improve the capabilities of their subgrantee PVOs;

(3) Resolution of problems and conflicts that may arise out of subgrantee PVO operations; and

(4) Analysis of the financial and economic feasibility of income-generating projects.

3. Stand Alone and Special Interest PVOs

The PVOs' major responsibilities will include registration with USAID, initial design and submission of subproject proposals, final design of subprojects, all arrangements for duty-free entry of project commodities if applicable, management and implementation, participation in assessments and evaluations, and compliance with all terms and conditions of grant agreements.

a. Registration

PVOs are solely responsible for securing registration with the GOP's Securities and Exchange Commission (SEC) and other government agencies as applicable, as well as satisfying USAID's registration requirements, which are set forth in the Mission's PVO Registration Guidelines.

The purpose of registration with USAID is to ascertain that the applicant is bonafide non-profit PVO or cooperative eligible for U.S. assistance. The registration process enables USAID to determine that the applicant is recognized by the GOP and is in compliance with its laws, and allows USAID to assess the overall viability of the applicant, and its ability to effectively manage a USAID-funded subproject. Once an applicant receives a "Certificate of Eligibility" from USAID, it is considered eligible to submit an initial subproject proposal for USAID's consideration and possible funding.

USAID requires that PVOs complete an application for registration and have it signed by the principal officers of its organization. In addition, several documents are required to be submitted along with the application. These are:

(1) Certificate of Registration with the SEC and/or other GOP agencies as appropriate;

(2) Articles of Incorporation, Constitution, By laws;

(3) Audited Financial Statement(s);

(4) Latest Annual Report (Narrative); and

(5) Current Budget.

The PVO's application for registration along with attendant documents are reviewed by OFFPVC, the Office of Financial Management (OFM), the Office of the Legal Advisor (OLA) and the Development Resources Management Office (DRM). If acceptable, the application is approved by the Mission Director who then signs a "Certificate of Eligibility", which is given by OFFPVC to the applicant. At this juncture, the applicant is deemed to be "provisionally registered" with USAID, and as such is eligible to submit a proposal and receive a one-time grant. The applicant's registration with USAID is then reviewed by AID/Washington. If found acceptable, the applicant is accorded fully registered status, and thereby is eligible for follow-on or other USAID-funded grants.

Special registration requirements have been established for Muslim and ethnic minority PVOs to facilitate their involvement with USAID.

b. Subproject Proposals

The preparation and submission of PVO Co-Financing subproject proposals is the responsibility of the PVOs. While USAID may assist in the refinement or redesign of proposals deemed to have merit and which have received initial approval, the refinement or redesign of subproject proposals is primarily the responsibility of the PVO proponent. The PVOs will likewise be responsible for consulting with relevant GOP agencies to ensure that their concerns are addressed in the subproject proposals.

4. <u>USAID</u>

USAID's role in project management is highly intensive and includes promoting the project through information campaigns, (as noted earlier), registration of acceptable applicants by determining their legal status and financial viability, conducting committee reviews of proposals, assisting with the design of projects and subprojects, monitoring implementation through on-site inspections and regular reports, conducting seminars and other training to enhance the institutional capabilities of grantees, providing various advisory services to grantees, maintaining effective procedures, conducting pre-grant and post-grant assessments, directing mid and final project evaluations, disseminating evaluation results, and managing close-out procedures.

USAID will continue its efforts to: (a) bring PVOs and cooperatives into the mainstream of USAID's development efforts in the Philippines;(b) to refine the strategies and approaches of the Mission, based on the practical experience of PVOs and cooperatives; and (c) to build as many professional relationships as possible between PVOs, the USAID staff, and GOP counterparts.

The overall project management of PVO Co-Financing IV will be handled by the Office of Food for Peace and Voluntary Cooperation (OFFPVC). USAID technical offices such as the Office of Health, Population and Nutrition (OPHN); the Office of Natural Resources, Agriculture and Decentralization (ONRAD); Private Enterprise and Support Office (PESO); and the Office of Capital Projects (OCP); will play key roles along with Development Resource Management (DRM), Office of Legal Advisor (OLA), Office of Financial Management (OFM) and the Office of Program Economist (OPE) in the review and redesign of PVO proposals. In addition, the Contract Services Office (CSO) is expected to play a pivotal role in the implementation of the PVO Co-Financing IV project as they are responsible for the execution of all grants under the Project.

USAID will employ and supervise consultants financed under the PVO Co-Financing IV project, to monitor the project and assist with project implementation. The consultants' principal task will be to assess PVOs; assist in PVO registration; to review subproject analysis and development; and to oversee subproject monitoring and evaluation. This will include conducting periodic site visits; assisting PVOs in refining and preparing proposals; identifying and recommending appropriate development strategies to further meet project objectives; designing and handling training seminars, workshops and conferences; and conducting assessments and evaluations of individual subprojects. The consultants will also help PVOs identify resources such as personnel, relevant studies, information, materials and equipment, etc., which could be of assistance in executing their projects.

5. AID/Washington

The PVO Co-Financing IV Project will be implemented by the Mission from its DA allotment. However, policy guidance emanating from AID/Washington - specifically from the Bureau for Asia - pertaining to AID's relationship with PVOs, will be adhered to in subproject grant approval, monitoring, and evaluation processes. In accordance with AID environmental policy guidelines, each subproject grant proposal will undergo an initial environmental assessment (IEE) to be performed by O/FFPVC in consultation with the Mission Environmental Officer. All IEEs will be submitted for the Bureau Environmental Officer's clearance as part of the grant approval process. The IEE process is discussed in further detail in Section I. Environmental Concerns.

In contracting for consultancy service and technical assistance the Mission will consult both with the Democratic Affairs and Private Voluntary Cooperation Office, and with the Office of Small Business, to facilitate the participation of qualified Gray Amendment firms in the Project.

B. Implementation Plan

Project implementing strategies for strengthening IIs, PVO networks, and for broadening PVO coverage have been discussed in detail in Chapter II, Management Approach. Presented below are the innovative strategies covering the "Greater Access to Credit" component.

1. __The commercial credit access focus__

The first step in implementing the commercial credit component of this project is to identify a task force of key PVOs for the development of high quality proposals. Such proposals will demonstrate the feasibility of proposed activities to "friendly bankers", who may include those sitting on the boards of the PVOs. Discussions with PVOs have identified a number of candidates who appear willing to serve on this task force. They include representatives from PBSP, Kauswagan, RAFI, DPF, the Ayala Foundation, and TSPI.

The objective of the task force will be to create a convincing proposal that will gain a commitment from a group of at least five banks to provide P1 billion in credit - for non-Metro Manila enterprise development - over the 5-year life of project. This proposal would draw heavily on the successful experience of TSPI and other PVOs to demonstrate the commercial viability of such proposals.

Because each of the task force members has other responsibilities, and because of the critical nature of the task, USAID will provide a U.S. consultant (technical assistance) to work full-time on this task for a period of 4 to 6 weeks. This will provide the catalyst needed to assure that a quality proposal is developed in a timely manner.

The bank commitment may involve differing relationships between the banks (the FUND) and the PVOs. It could involve the PVOs actually becoming the borrowers, who then identify, package, service, and repay the bank loans; or it could involve the PVOs identifying, packaging and servicing enterprise development loans as agents of the banks. It could also involve a mix of these two distinct types of relationships. The experiences gained from the Small Enterprise Credit (SEC) Project, and the network it has established between the banks and the small enterprises assisted by the project, could serve as a useful reference and guide in the implementation of this project strategy. The SEC-established network with rural and commercial banks will be explored, where appropriate, for larger credit requirements of PVO microenterprises as they move towards small and medium enterprise levels.

2. __Training in credit management__

Once a commitment from the banks is obtained, those PVOs that are fully capable of running a credit program could immediately start

2. **Training in credit management**

Once a commitment from the banks is obtained, those PVOs that are fully capable of running a credit program could immediately start to identify, package and access the credit. For most PVOs, however, intensive training in credit management will be required. For this purpose, USAID may contract with IIs that have proven strength in credit management, such as TSPI, to provide this training. These IIs will help other PVOs to develop the skills necessary to identify enterprise opportunities, to do market research, and to train beneficiaries in the skills required for successful credit management. They have developed the techniques necessary to assure an extremely low default rate.

3. **Consulting services**

The project needs at least one full-time project development consultant with a very high level of financial/banking/business development skills.

To assist the process of transferring enterprise development and credit management skills to other PVOs, USAID will provide periodic consultancy services for the credit component, particularly during the first 3 years of the project. As much as 4 person-months per year may be required during the first three years, with lesser amounts in the last 2 years. The length and frequency of consultancy needs will depend partially on the skills levels USAID is able to contract for as full-time project development consultants. TSPI could be used to provide this assistance through a series of formal training sessions at the three regional training centers developed by the PVO Co-Financing project. This training should be combined with on-the-job training, where students gain practical experience, side-by-side with the contractor's staff in the field. This is a fairly high risk project activity, but one that will produce very high rewards if conducted successfully.

Annex O contains the project approaches in sub-project identification, design and implementation; including the preparation and submission of proposals, review and approval process, the grant agreement, project management procedures, and sub-project close-out procedures.

C. Implementation Schedule

	Action	Timing (months)
1.	Contract Actions Initiated to Secure Monitoring Services	-6
2.	Project Authorized	0
3.	Registration of PVOs	1-24
4.	Workshops for IIs Scheduled	6,12,18,24
5.	Networking Exercise with	3

	PINOI Begun	
6.	Proposals Reviewed	4-24
7.	TOR for evaluation services developed	20
8.	Mid-Term Evaluation conducted	24
9.	Review of Evaluation Findings by GOP, USAID and PINOI	26
10.	Needed Adjustments to Project, if required	30
11.	Close Out Procedures Initiated	54
12.	Final Evaluation Completed	56
13.	PACD	60

D. Monitoring and Evaluation Plan

1. Project Monitoring

Project monitoring will include grantee quarterly reports, project officer visits, financial and operational monitoring by a USAID contractor, periodic visits to grantees by USAID personnel, and annual audits of the grant and grantees by independent audit firms.

a. USAID will hire a local contractor to perform financial and operational monitoring on site for each grantee, at least twice per year. The contractor will also visit a selection of sub-grantees. Reports of all monitoring will be furnished to USAID for review.

b. USAID staff will assess each new grantee for its financial management capability. For new IIs, the proposal review process will include a technical and administrative capability assessment. OFM staff will also perform periodic spot checks of grantee financial management.

c. Under AID's new "recipient contract audit" requirement, each grantee must have its grant fund account audited annually by an independent audit firm approved by the Inspector General Office of AID. The results of these audits will be furnished to USAID.

In addition to these monitoring activities, IIs will be responsible for monitoring sub-grantee finances and operations on a frequent and regular basis.

2. Reporting Requirements

A variety of one-time and periodic reports from PVO grantees are necessary, in order for USAID to monitor and appraise subprojects and to maximize the lessons learned. Since reports are also needed by NEDA to monitor PVO activities, the USAID will see to it that copies of our status reports on PVO subprojects relevant to NEDA's monitoring and evaluation activities are forwarded to the NEDA central office. The format for quarterly reports to NEDA is attached as part of Annex B.

a. Initial Reporting Requirements

(1) Implementation Plan. Within six months following the effective date of the grant, grantees prepare and submit to USAID a life-of-project Implementation Plan which lists scheduled activities by quarter. The Implementation Plan specifies project activities (for example, "gathering of baseline data"), and lists project targets for that activity (eg. "Baseline surveys for 10 communities"), and also reflects the time frame within which the activities will be conducted, by use of a modified gant chart. Grantees update the Implementation Plan as part of the Quarterly Progress Report, which also lists individuals responsible for project activities, and related budget line items from both USAID and Counterpart funds.

(2) Evaluation Plan. Within six months following the effective date of the grant, grantees submit to USAID a Evaluation Plan that addresses gender-related concerns and describes evaluation events -- when they are to be scheduled, what aspects of the project will be evaluated, who will participate, the purpose of the evaluation, and the methods that will be used to carry it out. The grantees may decide to undertake a series of evaluations to meet program requirements.

(3) Baseline Report. Within six months following the effective date of the grant, grantees submit to USAID a Baseline Report providing a **gender-sensitive** socio-economic profile of the beneficiaries in relation to the broader population. The Baseline Report focuses on the key indicators necessary for evaluating and monitoring the progress, results and impact of the project (i.e., family income, health and education status, women's participation, etc.).

(4) Financial Review Plan. Within six months following the effective date of the grant, grantees submit to USAID a Financial Review Plan describing the plan for periodic review of financial management of project resources, compliance with reporting requirements under the Grant Agreement, and maintenance of adequate internal controls.

(5) Sustainability Plan. Within one year following the effective date of the grant, grantees must submit to USAID a Sustainability Plan, describing the project's planned strategies for self-sustainability beyond PACD.

b. Quarterly Reporting Requirements

(1) Quarterly Progress Reports. Grantees submit to USAID Quarterly Progress Reports. These reports include a discussion of the status of project implementation and describe project activities, making a comparison between planned activities and actual activities. These reports may serve as inputs to the Mission's Quarterly Progress Status Reports (QPSRs), which summarize the progress of activities during the reporting period.

(2) Quarterly Financial Reports

(a) Request for Cash Advance. Grantees may request advances of funds.

(b) Expenditure/Liquidation Report. Grantees prepare Expenditure/Liquidation Reports indicating in detail the expenditures of both USAID grant funds and counterpart funds.

c. Final Reporting Requirements

Within ninety (90) days after the grant completion date, grantees submit to USAID a Project Assistance Completion Report. The report covers:

--Status of various project elements (e.g., procurement, construction, training).

--A final financial report including a summary of contributions made by USAID, the grantee, the beneficiaries and other donors (i.e., planned versus actual inputs) and disposition of assets obtained under the grant.

--A brief description of project accomplishments in light of indicators at the commencement of the grant, the original project design and modifications of project design during implementation (including a comparison of revised outputs and actual outputs).

--Description of continuing grantee responsibilities for activities begun under the grant.

--Identification and discussion of the sustainability of benefits and project activities that need to be carried forward.

--A review and analysis of baseline, monitoring, and evaluation data.

--Summary of lessons learned from the project that might be relevant to replication, in whole or in part, of project activities; and

--An Assessment of the impact the project has had and will have on project beneficiaries, including an evaluation of subproject self-sustainability..

3. <u>Project Evaluation</u>

The PVO Co-Financing IV Project will be evaluated mid-way through the project in October 1995, and before the end of the project in 1998, by an outside evaluation team. Data for the proposed evaluations must be gender-sensitive, and may be sourced from quarterly progress reports, site visits, and interviews with project implementors and beneficiaries. The proposed measures for these indicators are presented in Annex N. The mid-project evaluation will also include an assessment of the credit component; in other words, PVOs' access to commercial sources of credit, leveraging of non-USAID resources, and establishment of the FUND, and others. The evaluations will consider the following indicators, among others that may be identified in the course of project implementation.

a. Indicators of Strengthened IIs

1) Longevity, track record and persistence over time
2) Program and absorptive capacity
3) Organizational growth and adaptability
4) Efforts in sustainability to equal those of service to beneficiaries
5) Increased Institutional and participative decision-making as against personal decision-making
6) Strategic fit of mission, vision, goal program, processes, structure and budget
7) Reputation for service, stability and credibility among donors, government agencies, and people in the project sites.

b. Indicators of Strengthened Subgrantees:

1) Formal registration and accreditation with government agencies and donor institutions
2) Successful completion of grant-funded projects
3) Increased activities with LGUs
4) Increased capability to provide assistance to community-based organization.
5) Increased level of organizational resources
6) Increased administrative capabilities
7) Strategic fit of mission, vision, goals, programs, structures and budgets

c. Indicators of Strengthened Community Based Beneficiary Organizations

1) Increased Membership

2) Increased Number of Income Generating Activities
3) Increased Participatory Decision Making Activities
4) Increased Training (Organization & Individual Skills)

d. Indicators of Income Generation of Individual Families and Increased Access to Services

1) Increased employment in the family
2) Increased income in the family
3) Improved health access of the family
4) Improved education access of the family

e. Indicators of Participation of Ethnic Minority Sub-Grantees

1) Increased number of Islamic Sub-Grantees in the PVO Co-Financing Program.
2) Increased capability to provide assistance to community-based organizations.
3) Accreditation with GOP and donor institutions.

f. Gender Indicators

1) Quantity and quality of project-generated opportunities for men compared with those for women.
2) Decrease in tradition-based biases against women's participation in economic activities.
3) Presence of distinct women development programs, projects, and sections in NGO offices and government offices in the area.
4) Participation in the implementation of international, national, and regional women advancement programs.
5) Practice of gender fairness within PVOs/NGOs, in staffing and distribution of roles and benefits.

E. Procurement of Goods and Services (Source/Origin Requirements)

The eligibility rules for the procurement of goods and services are based on source, origin, and nationality and are divided into the two categories. One applies when the total procurement during the life of the grant is over $250,000 and the other applies when the total procurement element during the life of the grant is not over $250,000. The total procurement element includes procurement of all goods (e.g., equipment, materials, supplies) and services. Guidance on the eligibility of specific goods or services may be obtained from the grant officer. AID policies on source, origin, and nationality are contained in Chapters 4 and 5 of AID Handbook 1, Supplement B, (Procurement Policies).

F. Procurement Plan and Contracting Requirements

Prior to the release of funds, the USAID's Office of Financial Management or its authorized representative will conduct a financial management assessment of the grantee. The purposes of the assessment are (1) to determine whether the grantee has an acceptable financial management system to control and account for USAID funds and (2) to determine what appropriate method of financing is applicable to each grantee.

Grantees with acceptable financial management systems will generally be financed through the cash advance/liquidation mechanism as provided in Handbook 3, Appendix 31. Grantees with weak or poor financial management system will be financed through the reimbursement method.

For financial and programmatic monitoring of PVO grantee/subgrantees, as well as mid-project and final evaluation of the project, USAID will engage the services of local and/or U.S. contractors to be competitively selected for these purposes. Procurement will follow the relevant A.I.D. Handbook and regulations, including Handbook 1B, Procurement Policies;, Handbook 13, Grants; Handbook 14, Procurement Regulations for A.I.D. direct contracting. No major commodity procurement is planned in the project.

G. Women in Development

The role of women both as Project participants and beneficiaries will continue to be a major consideration in the selection of proposals, and in the design of sub-projects. Many of the PVOs with which the Mission has close and continuing relationships were established by women, and are led and staffed by women. At least three IIs have defined institutional commitment to gender-fair development strategy.

Recent developments encourage the continued participation of women in the PVO Co-Financing program. The survey of IIs and sub-grantees conducted for this project revealed that women benefitted significantly from Co-Financing's microenterprise development and other livelihood programs. In health and population programs, women accounted for over half of the beneficiaries. In addition, a number of PVOs have organized a Women in Development (WID) desk, and currently implement programs that are gender-focused and gender sensitive. PBSP's WID Desk has provided training on gender analysis and program development to 30 women leaders, and has established linkages with national women's organizations.

The PVO Co-Financing IV Project will continue to emphasize sub-projects that promote the active participation of women at both managerial and beneficiary levels. Deliberate efforts will be made to incorporate gender concerns in planning and implementation of projects, in order to distribute benefits evenly among men and women.

A sharing of current knowledge and skills in gender-sensitive planning and training across IIs and sub-grantees will be part of the project strategy; particularly in sub-projects intended for tribal and ethnic communities which have strong patriarchal systems.

H. Gray Amendment

The PVO Co-Financing IV Project is designed primarily to assist indigenous PVOs. However, USAID will give maximum practicable consideration for contracting organizations in project activities, such as monitoring and evaluation, where possible. Qualified Gray Amendment contractors will be sought and identified through information available in the Mission and consultations with the Bureau and the Democratic Affairs and Private Voluntary Cooperation office.

I. Environmental Concerns

In order to ensure that subproject grant-funded activities conform with requirements of AID Regulation 16, Sect. 216.2, USAID, in consultation with the Mission Environmental Officer, has established the following procedures for environmental review of each subproject grant proposal:

- subproject grant proponents are required to describe, in their proposal documents, the environmental impact that the proposed activity is expected to have;

- as part of the subproject grant development process, O/FFPVC will coordinate field exercises to assess each project proponent's managerial capabilities and to review project design, including environmental impact issues;

- O/FFPVC will prepare an initial environmental assessment that incorporates field review results. This assessment will be reviewed by the Mission Environmental Officer (MEO) and forwarded to the Bureau Environmental Officer (BEO) with his/her recommended environmental action. If any subprojects warrant extensive analysis, the assessment will be completed prior to their implementation;

- BEO will review and comments on the Mission's environmental assessment.

IV. COST ESTIMATE AND FINANCIAL PLAN

A. Cost Estimates

The total cost of this project is estimated at $28.0 million over five years; $20.0 million (71 percent of total project cost) will be AID-funded, and approximately $8.0 million (29 percent of total project cost) will be PVO/NGO cash or in kind counterpart contribution.

The PVO Co-Financing IV Project will have four components, namely: (1) Capability Building of PVOs/NGOs, (2) Broadening PVO Coverage, (3) Strengthening PVO Coordination and Advocacy, and (4) Monitoring, Evaluation and Audit. These components will each have separate performance indicators to measure goal/purpose achievement. To avoid overlaps among the project components, financial recording and reporting of USAID grant funds, will reflect the following cost elements: (1) Grants to PVOs/NGOs, (2) Project Development, (3) Project Monitoring/Audit, (4) Technical Assistance,(5) Training and Seminars and (6) Evaluation.

The financial tables are presented in Annex H by project component and by cost element. Table 1 shows an illustrative financial plan for the project while Table 2 presents planned yearly obligations and expenditures by fiscal year. Table 3 illustrates the proposed distribution of USAID funds by functional account. Table 4 presents summary cost estimates and financial plan. Table 5 illustrates projection of expenditures by fiscal year and project component while Table 6 presents the Methods of Implementation and Financing.

Tables 1 indicates that approximately 88 percent of AID funds will be AID Direct Grants to PVOs/NGOs, while 12% of funds are allocated for support activities (project development, monitoring/audit, technical assistance, training and seminars and evaluation). Table 4 shows that of AID Project Funds, 93% will be local currency costs and 7% will be foreign exchange - mainly under project development, technical assistance and evaluation cost elements.

B. Methods of Implementation and Financing

Table 6 summarizes the methods of implementation and financing for the PVO Co-Financing IV project. Eighty-eight percent of total AID funds will be implemented by AID Direct Grants to PVOs/NGOs whereby advance payments are made or letters of credit are opened in compliance with US Government cash management policies. Twelve percent of total AID funds will be implemented by AID Direct Contracts to Suppliers/Contractors employing direct payment method of financing to such entities.

C. Financial Monitoring

In compliance with AID policies, OFM will conduct an assessment of the adequacy of the recipient PVO/NGO financial management system to control and account for US Government funds. This is a pre-requisite for using the advance method of financing.

During the course of implementation, reviews of disbursements will be conducted periodically to review supporting financial documentation records and reports, to ensure integrity of financial status presented. These reviews will cover AID project funds as well as PVO/NGO cash and in-kind counterpart contributions.

Grant financial close-outs will likewise be conducted to ensure that goods and services contracted for are received and accepted, and full accounting of these costs is submitted. For the project's credit component, OFM will review financial systems and will analyze projected funding flow of credit programs, to indicate rates of return on various credit policy assumptions.

To further enhance sound financial management systems of recipient PVOs/NGOs, periodic financial management seminars will be conducted to address financial management concerns, and to implement improvements noted in the above-stated periodic financial monitoring activities.

OFM will be responsible for the financial analysis and monitoring of project funds. If necessary, OFM may contract the services of independent audit firms to carry out financial monitoring activities using project funds set aside for that purpose.

D. Monitoring of Counterpart Contribution

For the past two years, USAID has been working towards the development of a monitoring system to track project counterpart contributions. A local consulting firm was contracted to assist implementing organizations in gathering and compiling counterpart contribution data. The consulting firm reviewed the integrity of reports and verified supporting documentation. A workshop has been conducted on the reporting of counterpart contribution, including report formats and frequency, concepts and guidelines for allowability of counterpart, allocations and valuation of cash and in-kind contribution, record keeping and maintenance.

Efforts along this area are ongoing. Quarterly reporting of counterpart contribution will continue to be required. Monitoring of counterpart contribution for the PVO Co-Financing IV project will be done by internal Mission staff and by external consultants (if funds are available). The Mission has an established tracking system to store/retrieve cash and in-kind counterpart contribution information for projects, comparing required counterpart levels and actual expenditures by implementing agencies.

E. Financial Sustainability

The track record of PVO capabilities, under previous Co-Financing Projects with similar activities, lends positive indications of the sustainability of Co-Financing IV. Data related to PVO counterpart contributions registered under these Co-Financing projects shows that while the minimum required PVO counterpart contribution is 25 percent of the total project cost, actual contributions have ranged from 30 to 50 percent. Evaluation studies on the Co-Financing projects show that several of the larger and better-established IIs have been able to mobilize non-USAID resources, in amounts ranging from more than one to several times the amount of the USAID grant.

Sustainability for the Co-Financing IV project will be further enhanced by the USAID's proposed strategy of using Project funds to strengthen PVO capacities to utilize commercial bank credit. A Central Bank of the Philippines circular, issued in 1991, required that lending institutions set aside a portion of their loan portfolios for small and micro enterprise development activities. The Co-Financing IV Project will train PVOs to tap into this pool of funds, which will total roughly $1.5 billion over the next four years for IIs operating in areas outside Metro Manila. USAID proposes to allocate as much as $8.0 million of project funds to strengthening the capacity of IIs to leverage non-USAID funding resources. USAID believes that a leveraging ratio of 5 to 1 is feasible. If used effectively to augment II credit access capabilities, grants of up to $8 million to established IIs could result in leveraging the equivalent of $40.0 million in commercial loan funds.

An additional measure of sustainability is the ability of PVOs in the Co-Financing IV project to raise other non-AID and non-donor funds over the life of the project.

F. Audits

The project provides funds for non-federal audits of project activities following guidelines from the AID Office of the Inspector General. Primary responsibility for audits of AID-funded projects lies with the Resident Audit Office (RAO). However RAO may contract non-federal auditors for this purpose. Recipient Contracted financial Audits (RCAs) are required for grants and cooperative agreements, and cover both grant and counterpart funds. Extent of implementation will be in accordance with directions provided by the RAO, Mission Director and OFM. Non-federal audits may be carried out through contracts, with independent auditors approved by the AID Inspector General to perform such activities. RCAs will be conducted with reasonable frequency, on a continuing basis or at scheduled intervals; usually annually, but not less frequently than every two years. The frequency of RCAs shall depend upon the nature, size, and the complexity of the activity. RCAs do not relieve A.I.D. of its audit responsibilities, but may affect the frequency and scope of such audits. RCAs are financed through project funds set aside for this purpose.

V. SUMMARY OF ANALYSES

Following is a summary of the approaches taken and the conclusions drawn by the project design team in its efforts to affirm the technical, financial, administrative, and economic feasibility and social soundness of the PVO Co-Financing IV Project. More detailed presentations of the feasibility analyses are contained in the Annexes.

A. Technical Analysis

The basis for assessing the technical feasibility of the Project is the record of experience gained in implementing the three previous Co-Financing projects. Formal evaluations of these three projects have shown that there has been steady improvement in the capacity of the USAID and IIs to transfer to PVOs the technical skills needed to develop, manage and monitor sub-project activities effectively. This has been accomplished primarily through training activities. Individual PVOs, in turn, have demonstrated their ability to transfer the knowledge and skills needed to prepare project proposals and successfully carry out development activities, to communities. With the exception of projects involving expanded access to commercial sources of credit, the enterprise and community development activities to be implemented under the Co-Financing IV Project will be similar to those implemented under the three previous projects.

Under PVO Co-Financing IV, the USAID will give special attention to assuring that IIs and PVOs acquire the skills needed to help beneficiary groups access commercial sources of credit and finance expanded enterprise development activities. PVOs and beneficiary groups in particular, will need to become familiar with bank collateral and documentation requirements, and with market research and credit management procedures. A principal objective of the Project is to strengthen the capacity of the three regional Co-Financing training centers to provide orientation and training in these areas; and USAID will provide technical assistance from outside sources where needed. In addition, the three training centers will involve banking officials and businessmen in orientation and training activities. IIs and PVOs that have specialized technical skills and experience in enterprise development or credit management, will be asked to share their skills and experiences with community and PVO participants, both directly and through training activities.

The technical soundness of the project will also be greatly strengthened to the extent that it is successful in energizing Co-Financing PVOs to establish a national network (possibly PINOI) of Co-Financing PVOs. A national organization would greatly facilitate the transfer of technical expertise and skills by serving as clearing house for sub-project proposals. It would also have the resources to provide quick access to sources of technical information and assistance through indexing of the technical capabilities and skills of the country's PVO community.

As in past Co-Financing projects, a wide variety of technical skills and training activities will be required to design and implement the various projects. Proposed projects will include income-generating enterprises, sub-lending and credit operations, community organization, health services outreach, disaster relief, child care, water delivery and low-income housing projects. The technical feasibility of proposed projects will be assessed on a case-by-case basis at the time they are submitted to the USAID PVO Project Review Committee. Beneficiary ability to use and maintain the technologies being introduced will also be examined on a case-by-case basis during the Committee's review of project proposals.

B. Financial Analysis

Financial Analysis is an integral part of developing/evaluating viable and effective projects. While Co Financing IV will definitely result in a variety of quantifiable and non-quantifiable benefits, assessment of the overall financial viability for the Co-Financing IV Project cannot be reasonably estimated at this time due to the diverse nature of the activities to be undertaken and to the indeterminate design of the projects/credit activities which will be supported under Co-Financing IV.

Financial analysis will be done once the grantees and the specific project activities to be financed are identified. Each PVO proposal will include a brief financial analysis of the proposed activity which will be reviewed by OFM. For income-generating activities, it is critical to assess whether they will be profitable for individuals or enterprises undertaking them. Financial internal rates of return will be one of the tools in determining financial feasibility. For non-income-generating activities, cost-effectiveness analysis and/or recurrent cost or budgetary analysis will determine the financial soundness of the projects. OFM will likewise assist the PVO proponent if additional financial analysis is necessary. Pro-forma financial and analytical tools and formats may be suggested by OFM to facilitate the review process. OFM will review the reasonableness of the basic assumptions and the PVO's calculations based on techniques used. IIs will be expected to review the financial viability of credit activities of subgrants to PVOs. However, OFM may review on a random basis, the financial analysis and reasonableness of assumptions made by the PVO subgrantees, using specific interest rates applicable to the locality. USAID's Project Review Committee will determine whether the credit activity complies with AID credit policy.

With USAID's predecessor Co-Financing Projects, USAID has supported the PVO community in establishing a sound institutional base that is capable of launching an expanded effort to get a greater share of domestic capital resources committed to community development activities. These Projects have greatly enhanced the administrative and financial capabilities of PVOs. The track record of PVO capabilities under USAID's Co-Financing I, II and III projects shows that while the minimum required PVO counterpart contribution is 25% of total project costs, actual contributions have ranged from 30% to 50%. Also, the results of the mid-term evaluation of the PVO Co-Financing III project showed that IIs (some of the country's leading PVOs) have realized that sustainable employment and income-generating projects will have to become a major thrust of PVO activities, if work at the community level is to be self-sustaining. Co-Financing IV will therefore address the development of sustainable credit programs, with greater emphasis on enterprise development and particularly loan reflow management.

The PVO Co-Financing IV Project will pursue the leveraging strategy through its US$8.0M credit component, which plans to strengthen the capacity of PVOs to access bank credit funds for small businesses through IIs that will act as development banks outside Metro Manila. This will assist in establishing the credit activities of the IIs. The INITIAL STRATEGY is to convince bankers who sit on boards of II foundations to make credit available, at commercial rates of interest, to small and micro businesses outside the Metro Manila area (PVO Co-Financing IV target communities). The advantage for banks would be that they would not have to administer the loans (this would be done by the IIs), thus reducing the management task for the bank yet keeping loan activities in compliance with the intent of the law and regulation. Successful implementation of this component will result in substantial leveraging and economic impact in non-Manila areas. If the above strategy is abandoned (if the commercial bankers do not agree to the proposal), PVO Co-Financing IV resources will finance a SECOND STRATEGY whereby the US$8.0M will be given as a grant fund to the IIs. The IIs will relend the fund at market interest rates, with their traditional low transaction costs. The implementation of community and group credit arrangements under the PVO Co-Financing III Project has already demonstrated that carefully planned and executed projects in low-income communities can have successful repayment rates estimated at 95 to 100 percent. The lessons learned on credit activities under Co-Financing III project are presented in Annex H.

A sensitivity analysis on relending activities was done using two scenarios of 1) traditional credit-lending and 2) leveraging against the project credit component of US$8.0 M. Sensitivity tables are shown as part of this annex. The analysis shows that at the relending rate of 21 percent, a range of 22,595 to 80,000 beneficiaries could be reached. At the relending rate of 25 percent, a range of 23,444 to 81,531 beneficiaries could be reached. The multiplier effect of beneficiaries is obtained through leveraging funds at the ratio of 2:1. Average loan amounts were calculated from Peso 5,000 to Pesos 10,000. The tables show that with leveraging, at 21 percent relending rate, additional 17,405 beneficiaries could be serviced assuming loan size of Pesos 10,000.

Net capital build-up for a projected 5 year program at 21 percent without leveraging, would amount to Pesos 33,450,718 or US$1,338,029. Without leveraging, at a 25 percent relending rate, net capital build-up amounts to Pesos 44,609,625 or US$1,784,385. The leveraging strategy would reach out to more beneficiaries given the specific time frame of the project. The no-leveraging strategy would afford greater capital build-up for the PVO communities for income-generating projects.

C. Economic Analysis

1. Economic Framework

The framework underlying assistance to PVOs can be viewed best within the context of an economic environment where the poor Filipino farmer, small entrepreneur, landless worker, or housewife are all considered rational economic agents, responding favorably to market signals. His or her response behavior, however, is conditioned by several factors. One's educational and cultural background may inhibit one's response to market stimuli. The external environment has also been a constraint to such response and to overall community development; including conditions such as lack of access to credit, poor soil conditions, inadequate production and marketing information, lack of supply of skilled workers and managers, erosion of natural resource base, unsanitary water supply, and inadequate health support services. These factors impinge upon the ability of community members, like poor farmers and struggling microentrepreneurs, to fulfill their productive potential. In other words, the market signals themselves may be distorted or diminished by the time they reach the potential project beneficiaries and community members. It is in this context that project interventions by PVOs, together with the government, are seen and contemplated.

2. Economic Impact

Because of the nature of the Co-Financing IV design wherein specific PVO activities can be determined only upon receipt of project proposals, detailed economic analysis cannot be undertaken prior to the design of each subproject to be financed under the project. Hence, assessment of the economic merits of each subproject will be done when the proposal is received. Every PVO project proposal will include a short analysis of the expected economic effect of project activities on the target beneficiaries, and the per capita cost (cost per beneficiary) of achieving these beneficial effects. For income-generating projects (IGPs), to the extent the PVOs can supply information by filling out the Economic/Financial Analysis Forms, comparison of subproject costs and benefits will be greatly facilitated. For non income-generating projects, cost-effectiveness analysis, least-cost analysis, and the required minimum benefits approach can be utilized to determine subproject economic soundness. USAID will review each subproject proposal for economic viability. Subprojects of an income- producing nature will be required to demonstrate an economic rate of return equal to the social discount rate currently used by the National Economic and Development Authority. At the subgrant level, the II, to the extent that it is judged technically capable, will assess economic feasibility of subgrants. Whenever necessary, USAID will assist IIs in this work.

To facilitate the USAID or II review process, some funding will be set aside under Co-Financing IV to finance economic studies of prototype income-generating projects. Also, more attention will be given to collecting data and information that will facilitate evaluation of the project later. Better baseline data will make subsequent reviews more fruitful. Follow-up studies and reports on former beneficiaries in order to track attrition will provide significant data. Funds for such baseline surveys and evaluation activity will be made available under Co-Financing IV.

The ultimate impact of PVO project interventions can be seen by the improvement in the standard of living for beneficiaries of target communities. This impact may only be evident if the subprojects are effective in achieving their objectives/outputs, and if project beneficiaries are able to visibly benefit from those outputs. These welfare effects under Co-Financing IV will be substantiated come evaluation time.

In late 1991, the UPEcon Foundation published a Study on the Economic Impact of the PVO Co-Financing Program. This Study found that experience under Co-Financing II and III demonstrated a discernible positive impact on project beneficiaries. But at what cost is the positive impact achieved? Comparing the estimated increase in income per beneficiary with the project cost per beneficiary, IGPs (noting that retail trade IGPs have few forward or backward linkages with other sectors of the economy) are generally found to be economically sound, with an internal economic rate of return at about 26 percent. The economic return for agricultural credit and extension projects is marginal and has helped to increase farm incomes; but the costs involved in implementing the projects were high. Technical assistance or extension work showed more positive impact than did credit assistance.

3. Recommended Directions for Resource Allocation and Use

The basis for allocating resources under Co-Financing IV was developed from experience gained under the three previous Co-Financing projects, and from the findings of the two strategic assessments of Co-Financing III conducted in 1989 and 1991. The resource allocation strategy of Co-Financing IV also incorporates the findings and recommendations made by USAID consultants, and the evaluation of the economic impact of the Co-Financing program in late 1991 by UPEcon Foundation.

There are several concerns raised in these studies (please refer to Annex I), and the Co-Financing IV project responds to these concerns. The approach being taken under the project is to begin directing an increased share of Co-Financing to IIs in order to enhance the prospects for leveraging USAID resources through community-based credit programs. Co-Fi IV will also work to access the funding resources of the country's commercial banking establishment. Increased emphasis will be placed on IGPs under the Co-Financing IV project, to increase job opportunities and incomes in disadvantaged communities. The Project will also include expansion activities, to broaden the outreach of the Co-Financing program to provide greater coverage to the country's more remote communities. Special efforts are being made to support the establishment of a larger number and more diverse group of indigenous PVOs, and to provide direct grants to PVOs representing ethnic and religious minorities in the more remote areas of the Philippines. It should be noted that there is a considerable short-term economic cost involved in broadening project outreach to these communities. Conversely, there is also a long-term economic benefit, since it is in these areas that project benefits have been sustained.

D. Social Soundness Analysis

Under contract to the USAID, the University of the Philippines Social Action and Research for Development Foundation undertook a comprehensive analysis of the social soundness of the Co-Financing IV Project. A report of their findings indicates that the Co-Financing IV Project has "socio-cultural fit", meaning that it is compatible with the cultural values and socio-cultural environment of its beneficiary communities. This fit results from the fact that the proposed project has been preceded by similar projects that were found to have been highly beneficial and valued in the communities where they were implemented.

The report offers a number of recommendations and suggestions that are of value in assuring the social soundness of the Co-Financing IV Project. These include creating a balance between social impact and financial sustainability concerns. The maintenance of good financial systems and accounting procedures for community organizations and cooperatives, for example, will assure beneficiaries that project activities are being well-managed, and will contribute to the overall welfare of the community. The report further indicates that project managers should test alternative, simplified documentation procedures and monitoring requirements, to ensure that these are compatible with the beneficiary communities' ways of doing business. Finally, Co-Financing activities must be seen by beneficiaries as addressing key issues that impact directly on their economic welfare. This means taking steps to reduce the high rates of interest charged by local moneylenders, and finding ways to raise the low prices offered to small farmers for their produce - a factor that is among the more onerous burdens placed on low-income groups in rural communities.

Regarding the sustainability of Project-funded activities beyond the five-year duration of the proposed project, the report noted that it will depend upon a number of factors: the organizational viability of the PVOs; the ability of community-based organizations to access non-USAID sources of funding and credit; the success of PVO-LGU collaboration in policy matters as well as proposal design and implementation; and the extent to which the project beneficiaries themselves are committed to continuing these activities.

The study generally endorses the objectives and structure of the Co-Financing IV Project; primarily its intention to use IIs as the main implementors of project-funded activities; its emphasis on promoting expanded enterprise development and increased access to commercial sources of credit; its broad-based approach to training; and its recognition of the need fully involve prospective beneficiaries in the design and implementation of Project activities.

E. Administrative Analysis Summary

Viewed from the perspective of its administrative feasibility, the Co-Financing IV Project has a number of inherent advantages. With the exception of the Project's prospective beneficiary communities - which have not as yet been identified - the administrative relationships among participants in the Project are well-established. USAID staff have worked closely in recent years with the principals and staff of the major IIs, who are to play a key role in project implementation. Among the PVOs that are expected to be grantees under the Project, most have had previous experience administering USAID-funded projects, and nearly all are familiar with the IIs.

More than its three predecessors, the Co-Financing IV Project will rely on the IIs to administer Project activities. This approach is consistent with the experience gained under the three previous Co-Financing projects. As indicated earlier, both of the mid-term assessments of the Co-Financing III Projects noted that the IIs are well-managed, and have effectively broadened the outreach of the Co-Financing Program through successful sub-lending programs. More importantly, they have been able to use sublending programs to reach outlying beneficiaries without having to increase markedly the size or complexity of their organizations. The proposed inclusion of several new IIs during the course of the Project - all of which will have had extensive experience managing sub-projects and/or sub-lending programs - will contribute significantly to the administrative efficiency of the Project.

The administrative role of individual PVOs in Project implementation will also continue to be substantial. PVOs will work at the front-lines of Co-Financing implementation activities. They will interact directly with project beneficiaries, and will be involved with on-site technical assistance and training activities. The cadre of PVOs currently registered with the USAID will constitute the core group of grantees and sub-grantees under the Co-Financing IV Project. Their extensive experience in community development coupled with their previous experience administering USAID projects will add appreciably to the administrative soundness of the Project.

The new elements involved in administering Co-Financing IV activities will center around the Project's proposed emphasis on enterprise development and expanded credit operations, and the increased efforts being made to extend assistance to religious and ethnic minority groups. The resources to be committed to these undertakings will be substantial. The burden of accommodating these new initiatives should be lessened by the increased role of IIs in Project implementation and management, by the greater degree of PVO networking and coordination envisioned for the Co-Financing IV Project, and by the greatly enhanced training capabilities being developed by the three regional Co-Financing training centers. From an administrative point of view, Co-Financing IV participants appear well-equipped and should encounter little difficulty managing these new initiatives effectively.

Annex A

LOGICAL FRAMEWORK

LIFE OF PROJECT
From: FY 1993 to FY 1998
Total U.S. Funding $ 20 million
Date Prepared: June 26, 1992

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title and Number: PVO Co-Financing IV Project
(492-0470)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
(A-1) Program or Sector Goal: The broader objective to which this project contributes: Improve the socio-economic status of selected groups, including ethnic minorities, through participatory development activities.	**(A-2) Measures of Goal Achievement:** Increased employment production and marketing opportunities. Expanded access to capital and technical resources greater access to health care and other essential services.	(A-3) National and Regional Statistics Household and Community Surveys Final Evaluation of Project	**(A-4) Assumptions for achieving goal targets:** 1. GOP and local governments maintain and carry out policy stated in Local Government Code of 1991 (Decentralization) 2. Political environment and peace and order conditions remain stable. 3. PVO efforts can meet selected needs of the socially and economically disadvantaged. 4. GOP/PVO relationships will permit collaboration in developmental activities. 5. PVO and II efforts will continue after PACD.
(B-1) Project Purpose: ◆ To strengthen the well-established PVOs to serve as IIs while assisting smaller PVOs in efforts to provide basic services and expanded employment-generating opportunities. ◆ To expand the participatory and advocacy capabilities of PVOs to enhance policy dialogue, facilitate project coordination and coordinate disaster preparedness, mitigation and prevention efforts at the local, regional and national levels.	**(B-2) Conditions that will indicate purpose has been achieved: End-of-Project Status.** 1. Increase in number, type, and reach of programs implemented by IIs. 2. Increased number of PVOs capable of managing subgrants to other organizations. 3. Increased access by PVOs from donors and banks. 4. Ethnic minority PVOs developing sub-projects for their own communities. 5. Network and database established for use of PVOs and donors. 6. Increased PVO/GO networking for disaster activities	(B-3) 1. Quarterly PVO reports, evaluations and site visitations. 2. Quarterly reports of IIs evaluations and site visitations. 3. Quarterly reports of IIs evaluations and site visitations. 4. Independent monitoring and evaluation reports	**(B-4) Assumptions for achieving purpose:** 1. GOP will continue to encourage non-government initiative and participation in development activities. 2. USAID Co-Fi funds will augment and not supplant PVO development funding. 3. PVOs will be able to meet eligibility criteria set forth under this project, both for direct grants and IIs as well ethnic/cultual minority PVOs. 4. PVOs will continue to find Co-Fi Grants a valuable source of additional resources for expanding their development activities.
C-1) Project Outputs: ◆ Increased number of II serving more PVOs. Wider network of PVOs per II. ◆ Increased number of PVOs developing sub-projects in housing, land reform, health-care and sanitation and natural resource management. ◆ Ethnic minority PVOs serving the needs of their own communities. ◆ Establishment and use of a database system for all PVOs. Strengthened collaboration between PVOs and LGUs.	(C-2) Magnitude of outputs: 1. Establishment of five new IIs. Wider network of coverage of four already-established IIs. 2. Forty to fifty sub-projects that include income-generation, housing, health-care, sanitation, or natural resource management. 3. Between 15 and 25 sub-projects by ethnic minority PVOs. One ethnic minority made into an II and serving other ethnic minority PVOs. 4. Database for PVOs created. Networking among PVOs through PINOI. Closer coordination between PVOs & LGUs.	(C-3) 1. Quarterly ethnic minority PVO reports, evaluations and site visitations. 2. Quarterly II reports, evaluations and site visitations. 3. Quarterly II reports, evaluations and site visitations. 4. Independent monitoring and evaluation reports.	**(C-4) Assumptions for achieving outputs:** 1. Sub-project activities will be acceptable to intended beneficiary communities. 2. Skills attained at the beneficiaries level can be achieved and maintained. 3. IIs are available for and have the ability and resources to ensure consultation with the PVOs and participation in their proposed subprojects. 4. Initially identified subprojects are feasible.
(D-1) AID Project Inputs: 1. AID DIRECT A. Project Development Consultants B. Project Monitoring C. Training and Seminars D. Evaluation E. Technical Assistance F. Contingency 2. GRANTS TO PVOs/COOPERATIVES A. Strengthen IIs, PVOs, and Coops B. Strengthen Ethnic Minority PVOs C. Strengthen NGOs Capacity for Advocacy, Policy Dialogue and Coordination	**(D-2) Implementation Target (Type and Quantity):** AID DIRECT $ (000) A. $850 B. $450 C. $300 D. $250 E. $500 F. $100 Sub-Total $2,450 GRANTS TO PVOS/COOPERATIVES A. $15,900 B. $ 1,300 C. $ 450 Sub-Total $17,550 TOTAL AID $20,000	(D-3) USAID DIRECT A. Signed Personal Services Contracts B. Signed Contract C. Training & Orientation Sessions D. Completed Evaluations E. Consultation Services F. Publications, etc. GRANTS TO PVOs/COOPS A. Signed Grants & Reports B. Signed Grants & Reports	**(D-4) Assumptions for providing inputs:** Availability of AID funds over the life of the project.

53

Annex B

GOP LETTER OF REQUEST

56

REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
NEDA sa Pasig, Amber Avenue, Pasig, Metro Manila

Cable Address: NEDAPHIL
P.O. Box 419, Greenhills
Tels. 631-09-45 to 64

RECEIVED
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NOV 27 1992
4:00 P.M.

NOV 20 1992

MR. THOMAS STUKEL
Mission Director
U.S. Agency for International Development
Ramon Magsaysay Center
Roxas Boulevard, Manila

Dear Director Stukel:

This refers to the Private Voluntary Organization (PVO) Co-Financing IV Program which USAID is proposing to implement for five (5) years starting in US fiscal year 1993 with a total life-of-project (LOP) level of US $20 million.

We greatly appreciate USAID's continued support and assistance to Philippine PVOs under its PVO Co-Fi I to III. The shift of support from basic human needs to support for community organizations conforms with the overall Philippine development strategy.

While we are supportive of the Program, please find attached the NEDA Secretariat's comments and recommendations on the Program Paper.

We shall highly appreciate being informed on the action taken by USAID on subject recommendations.

Thank you and best regards.

Very truly yours,

CIELITO F. HABITO
Director-General and
Secretary of Socio-Economic Planning

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-51-

NEDA SECRETARIAT'S COMMENTS ON THE PROPOSED PVO CO-FINANCING PROGRAM

1. Subject project can be summed up as a consolidation phase. Within this purview, the proposal must include clear policy statements and purposive strategies directed towards assisting partner PVOs, particularly the long-standing ones, to wean from PVO CO-Financing IV funds, be it credit assistance, capability building or technical assistance. While it is true that the proposal has a resource mobilization component to augment those of USAID, it is crucial for the program to have clear policies on PVOs which have long been assisted by the program.

2. It may be important to come up with a listing of inaccessible/remote areas within the priority regions of the program. For greater impact, the program may have to concentrate in strategic areas rather than spread its resources thinly in the disadvantaged regions.

3. It has been observed that many varied documents are being required of the proponents. There may be a need to streamline and integrate some of these required documents to lessen the documentary burden on the beneficiaries. The evaluation plan, for one, can be integrated into the implementation plan.

4. The concept of getting women in development programs/projects into the mainstream seems not quite evident in the Women in Development (WID) Section of the proposal. Statements such as "PVOs were established by women, led and staffed by women; women accounted over half of the beneficiaries of health and population programs; and women benefited significant from microenterprise development and livelihood programs" give the impression that the prevailing WID concept is simply parochial, i.e., WID programs are those whose beneficiaries are women.

5. It is proposed that under the fourth package, project evaluation/endorsement and monitoring should be lodged under the Regional Development Council. The project proposal should advocate greater participation of local government units in the project possibly in the evaluation/endorsement and monitoring of local projects by the concerned Local Development Councils. As it is now, the proposal identifies the LGUs as possible sources of funds in the long-run to carry out PVO activities, given the increases in the shares of LGUs from internal revenue allotments.

6. Lastly, we would strongly recommend a systematic and useful documentation of the Program's success stories as well as lessons learned for wider dissemination to the bigger PVO community and the Government as well.

comments:cozzette III

Annex C

NPD APPROVAL CABLE

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Received in DRM 8/8/91
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Document No. 176
Assigned to RJ

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: NEW PROJECT DESCRIPTIONS FOR ECD II (492-0469), PVO CO-FI IV (492-0470), AND LGSD (492-0471)

1. AA/APRE APPROVES THE NEW PROJECT DESCRIPTIONS (NPD'S) FOR:

- ENTERPRISE IN COMMUNITY DEVELOPMENT II (ECD II),

- PVO CO-FINANCING IV (PVO CO-FI IV), AND

- LOCAL GOVERNMENT SYSTEMS DEVELOPMENT (LGSD).

AA/APRE DELEGATES TO THE MISSION DIRECTOR, USAID/PHILIPPINES AUTHORITY TO APPROVE ALL SUBSEQUENT DOCUMENTS FOR THESE ACTIVITIES AND TO AUTHORIZE THE PVO CO-FI IV PROGRAM FOR DOLS 25 MILLION AND THE LGSD PROGRAM FOR DOLS 50 MILLION. IF THE LEVEL IS INCREASED IN FINAL DESIGN, THE AMOUNT WILL HAVE TO BE APPROVED BY THE BUREAU. ON THE BASIS OF THE BUREAU REVIEW OF THESE NPD'S JULY 19, WE ALSO HAVE THE SUGGESTIONS BELOW.

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DRM	✓	
EXO		
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CMD		
GSO		
TRV		
OFM		
OCP		
ONRAD		✓
OPHN		
OFFPVC		✓
RAO/M		
RIG/A		
DUE DATE 8-15-91		

2. FOR BOTH THE ECD II AND PVO CO-FI IV PROJECTS, WE

BELIEVE IMPACT EVALUATIONS OR THEIR EQUIVALENT SHOULD BE AVAILABLE TO THE DESIGNERS OF FOLLOW-ON ACTIVITIES BEFORE FINAL DESIGN DECISIONS ARE MADE. IF IMPACT ANALYSIS WILL NOT BE AVAILABLE BY THE PLANNED AUTHORIZATION OF THE FOLLOW-ON ACTIVITY, IT IS PREFERABLE TO POSTPONE THE NEW ACTIVITY AND EXTEND THE EXISTING ONE UNTIL IMPACT HAS BEEN EVALUATED. EMPHASIS SHOULD BE PLACED ON EVALUATING THE CURRENT PROJECTS AND WE SEE NO NEED TO PREPARE A PROJECT IDENTIFICATION DOCUMENT (PID) FOR THESE ACTIVITIES. FOR THE EVALUATION EFFORT, THE MISSION IS REMINDED TO FOLLOW APRE/WID OPERATIONAL GUIDANCE, STATE 129508, PARA. 7, COPY TO BE FAXED. THUS ANY SCOPES OF WORK FOR EVALUATION ACTIVITIES SHOULD CALL FOR GENDER DISAGGREGRATED ANALYSIS.

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Dept _____ Initials _____

3. FOR THE LGSD PROGRAM, WE ALSO BELIEVE THAT THERE SHOULD BE AN EVALUATION OF PRIOR AND CURRENT PROJECT AND PROGRAM ASSISTANCE FOR DECENTRALIZATION BEFORE FINAL

60

DESIGN. WE WILL WANT TO BE ADVISED OF THE POLICY AGENDA UNDER THIS PROGRAM AT AN APPROPRIATE STAGE. OTHERWISE, AID/W NEED ONLY BE CONSULTED IF THERE ARE EXCEPTIONS TO STANDARD PRACTICES SUCH AS THE CASH MANAGEMENT GUIDELINES (WHICH REQUIRE ASSISTANT ADMINISTRATOR APPROVAL TO USE DOLLARS FOR MULTILATERAL INSTITUTION DEBT SERVICE INSTEAD OF U.S. COMMODITIES OR DEBT). FINALLY, WE WONDERED IF IT WAS APPROPRIATE TO INCLUDE A TRAINING FACILITY OR PROGRAM FOR LOCAL GOVERNMENT UNITS. IF NOT, WE SUGGEST THAT YOU PLAN SOMETHING TO ADDRESS THE TRAINING NEEDS OF LOCAL GOVERNMENT UNITS IN YOUR DEMOCRATIC PLURALISM PROGRAM.

4. WE ARE AVAILABLE IF CALLED UPON TO SUPPORT ANY OF THESE DESIGN EFFORTS. WE WILL SEND YOU ANY MATERIALS WE FIND ON EXPERIENCE ELSEWHERE WHICH MAY HELP DESIGN TEAMS. WE WOULD APPRECIATE YOUR SENDING COPIES OF EVALUATION RESULTS TO APRE/DR SO WE CAN KEEP CURRENT ON THE USEFULNESS OF THESE MAJOR ASSISTANCE THRUSTS AND CAN MAKE FINDINGS AVAILABLE FOR USE IN OTHER COUNTRIES.

5. FINALLY, IEE'S FOR THESE ACTIVITIES SHOULD BE SUBMITTED TO M. KUX, APRE/DR/TR, FOR APPROVAL. WE NORMALLY ASK THAT THE IEE BE SUBMITTED FOR TR REVIEW WHILE THE PID OR PAIP IS BEING REVIEWED BY THE MISSION. IN THE CASE OF THE ABOVE PROJECTS, WE SUGGEST THAT YOU SUBMIT IEE'S AS EARLY AS POSSIBLE IN THE FINAL DESIGN

PROCESS. (THIS ASSUMES THAT YOU WILL ELECT TO FORGO PID'S AND FOCUS ON EVALUATIONS OF THE ON-GOING ACTIVITIES.) BAKER
BT
#9020

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Annex D

STATUTORY CHECKLIST

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

Yes

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, 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.

a), d), and e) N/A
b) The project fosters private initiatives through PVO's.
c) The project supports the development of cooperatives.
f) Grants to PVOs may include assistance to strengthen free labor unions.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance 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).

N/A

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Yes, Congress was notified in the Congressional Presentation for FY 1993.

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted?

N/A

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an 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?

a) Yes
b) Yes

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N/A

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, _et seq._)? (See A.I.D. Handbook 3 for guidelines.)	Yes
7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?	N/A
8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (_e.g._, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	N/A
9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, 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.	a), d), e) N/A b) the project fosters private initiatives through PVO's c) the project supports the development of cooperatives f) grants to PVOs may include assistance to strengthen free labor unions
10. **U.S. Private Trade** (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).	N/A

65

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): 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.

PVO grantees are required to provide a minimum of 25% counterpart funding from non-USG sources, although this requirement may be waived under special circumstances.

b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): 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?

N/A

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

No

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

a) No
b) No

14. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?	**Yes, PVO grantees are required to meet the registration requirements of USAID.**
b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?	**Yes, U.S. PVOs are registered annually in AID/W. This includes submission of financial statements which show their funding sources.**
15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).	**N/A**
16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance acitivity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the	**N/A**

68

extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

17. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes, many PVOs that USAID cooperates with are established and led by women. This Project will fund PVO subprojects that promote active participation of women.

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No

19. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a) No
b) No

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

b. Will any funds be used to lobby for abortion?

20. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

Yes. The project will support the development of cooperatives through grants to PVOs.

21. **U.S.-Owned Foreign Currencies**

a. **Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509):** Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. — N/A

b. **Release of currencies (FAA Sec. 612(d)):** Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? — No

22. **Procurement**

a. **Small business (FAA Sec. 602(a)):** Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — Yes

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

c. **Marine insurance (FAA Sec. 604(d)):** If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — N/A

d. **Non-U.S. agricultural procurement (FAA Sec. 604(e)):** If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — N/A

e. **Construction or engineering services (FAA Sec. 604(g)):** Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible — N/A under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent 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? N/A

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

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

i. **Termination for convenience of U.S. Government** (FY 1991 Appropriations Act 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? Yes

j. **Consulting services** (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? — Yes

k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? — N/A

l. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

23. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

c. Large projects, Congressional approval (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 Congressional Presentation), or does assistance have the express approval of Congress? | N/A

24. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? | N/A

25. Communist Assistance (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? | Yes

26. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? | Yes

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? | Yes

27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?	Yes
28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes
29. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?	Yes
30. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes
31. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?	Yes
32. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?	Yes
33. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?	Yes
34. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?	Yes

35. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing 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?

Yes

36. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No

37. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

38. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

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B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

No

2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No

3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes

4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity 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 civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Project encourages democratic participation of Filipinos through support for PVOs; in addition, funding will be provided to help PVOs become effective advocates in dealing ith the GOP.

5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)): Describe 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, dispersing investment 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 appropriate U.S. institutions; (b) 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; and (e) utilize and encourage regional cooperation by developing countries.	1. Through grants to local and U.S. PVOs, the project is designed to improve the socioeconomic status of poor groups by increasing employment, production and market opportunities, expanding access to capi[tal] and technical resources, and increasing access to health care and other essential services. 2. The Project will actively assis[t] the development of cooperative and income-generating projects. Its participatory approach will seek to strengthen democratic participation at local levels. 3. The Project will assist PVOs to implement sustainable projects that beneficiaries will continue after the PACD. 4. Women will be major beneficiari[es] of the project. 5. N/A
7. Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent 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)?	PVO grantees are required to provide a minimum of 25% counterpart funding from non-USG sources, although this requirement may be waived under special circumstances
8. Benefit to Poor Majority (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?	Yes.

11

9. Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? No

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? No

10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

11. **Disadvantaged Enterprises** (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, 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)?

Yes. The project plans to contract with 8(A) firms in the evaluation of the Project..

12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

a) Yes
b) No
c) Yes
d) No

13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent

(1) to (13) Yes. The Project will build capacities of communities for natural resource management through grants to PVOs.

feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

(1) to (6), No

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

Yes, if Project sees the need for EIS for its PVO subprojects.

14. **Energy** (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. **Sub-Saharan Africa Assistance** (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if

N/A

8/

policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

16. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. — N/A

17. **Deobligation/Reobligation** (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? — N/A

18. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. — N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? — N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? — N/A

d. **Exports to United States** (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 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	N/A
19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding 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; (2) 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; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?	1. Through grants to local and U.S. PVOs, the project is designed to improve the socio-economic status of poor groups by increasing employment, production and market opportunities expanding access to capital and technical resources, and increasing access to health care and other essential services. 2. The Project will actively assist the development of cooperative and income-generating projects. Its participatory approach will seek to strengthen democratic participation at local levels. 3. The Project will assist PVOs to implement sustainable projects that beneficiaries will continue after the PACD. 4. Women will be major beneficiaries of the project. 5. N/A
20. **Agriculture, Rural Development and Nutrition, and Agricultural Research** (FAA Secs. 103 and 103A): a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.	Through grants to PVOs, the Project seeks to increase productivity and income of the rival poor, by increasing access to credit for income-generating projects and provision of technical assistance on project implementation and management.

9K

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

The Project will provide health care and help improve the nutritional status of poor communities.

c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

The Project will support income-generating projects,' including improved rice and food production, which could result in increased food reserves for the target communities.

21. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

The Project will provide essential services including health care and sanitation for poor community groups, with particular focus on the needs of women and children.

22. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and

a) The Project will strengthen the capabilities of PVOs to provide essential services, including adult literacy programs and vocational skills training to target rural and urban poor groups.
b) The project will provide specialized and advanced skills training to PVO intermediate institutions to develop their skills to provide technical assistance to subgrantees.

(b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

23. **Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106):** If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is: Yes

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; N/A

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; N/A

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

96

Annex E

GRAY AMENDMENT CERTIFICATION

Annex E

CERTIFICATION PURSUANT TO UTILIZATION OF GRAY AMENDMENT ORGANIZATIONS

I, John A. Patterson, 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, should technical assistance be required from the United States, every effort will made to identify a small or disadvantaged firm to provide the assistance. It is planned that this will include a portion of the accounting and auditing services to be procured. Furthermore, for the scheduled external evaluations, joint efforts involving both local expertise and Gray Amendment satisfying organizations are anticipated. My judgment is based on the recommendations of the Project and Mission Review Committees.

John A. Patterson
Acting Director
USAID/Philippines

August 4 1992
Date

Annex F

INITIAL ENVIRONMENT EXAMINATION

89

ANNEX F

INITIAL ENVIRONMENTAL EXAMINATION

(A) PROGRAM COUNTRY: Philippines

(B) ACTIVITY: PVO Co-Financing IV Project

(C) FUNDING: $20.0 Million

(D) PERIOD OF FUNDING: FY 1993 - FY 1998

(E) STATEMENT PREPARED BY: 7/31/92
David R. Nelson
Deputy Chief, OFFPVC
USAID/Philippines

(F) ENVIRONMENTAL ACTIONS RECOMMENDED:

(1) Categorical Exclusion AID Regulation 16, Sections 216.2(c) (1) (i), (iii) and (xiv) (Technical Assistance, Policy Studies, Public Awareness and Training), and

(2) Initial Environmental Examinations (IEEs) will be completed on all PVO subprojects to determine whether an Environmental Assessment is needed before the Mission finally approves projects for funding. If any subprojects warrant extensive analysis, the assessment will be completed prior to their implementation.

(G) ENVIRONMENTAL OFFICER CLEARANCE: Kenneth Lue
Kenneth LuePhang
USAID/Philippines

(H) DECISION OF ACTING DIRECTOR, USAID/PHILIPPINES

APPROVED: ______

DISAPPROVED: ______

DATE: August 4, 1992

(I) DECISION OF APRE ENVIRONMENTAL OFFICER

APPROVED: [illegible] ASIA/DR/TR

DISAPPROVED: ______

DATE: [illegible]-92

90

Annex G

TECHNICAL ANALYSIS

ANNEX G TECHNICAL ANALYSIS

The structure of this Project is such that there are two levels to deal with. First, is the PVO working with the beneficiaries' communities. The second is the IIs working with the PVOs. Consequently, the technical skills needed are in two levels: the sub-project type skills needed and the skills needed by IIs in working with PVOs.

Sub-Project Technical Skills

The technical aspects of this Project are almost as varied as there are sub-projects being conducted by the PVOs. These variances extend from income-generating to sub-lending and credit operations to environment and natural resource management to community health and nutrition and to housing. Therefore, the technical feasibility of sub-projects will have to be determined at the time they are being submitted to the USAID Project Review Panel. Consideration of the beneficiaries' ability to use and maintain the technology introduced will be examined as appropriate during reviews of proposals.

Equal consideration will be made on the PVO's capacity to train, coach or otherwise transfer the required technology to the community it serves. One technical skill that spreads across all of these sub-projects is the ability of the PVO staff to effectively train and coach their beneficiaries - that is to transfer the technology to the communities they serve. For without this transfer, each project will probably fail. Therefore, it is most important that all PVO trainers fully understand "how people learn skills". It is thus imperative that they utilize the "learn by doing" methods such as hands-on and experiential training. While "Training of Trainers" programs are available and are being used, there is always the tendency to return to the non-learning approach of lecturing because it's easier and more prestigious for the trainer. Periodically, technical assistance may be used to upgrade and update these training programs.

Technical Skills of PVOs

Formal evaluations have confirmed that the previous Co-Fi projects have been successful in attaining their objectives. PVOs have shown their capability of preparing project proposals and carrying out development activities. In many cases, this was proven after training and/or technical assistance.

Assessment teams have found the senior staff of the PVOs to be very articulate about the Co-Fi program, and its goals and operations. The staff they interviewed were also generally knowledgable about their PVOs mission, their organizational

Special technical skills are needed for IIs to be able to assess the commercial credit component for enterprise development. The nature of the credit component requires skill to analyze the financial and economic feasibility of a proposed business. They should also be skilled at market analysis and development; the use of non-traditional collateral; and non-traditional collection techniques and loan portfolio management. These skills are illustrative of those necessary for successful small enterprise development. These skills can be learned by the PVOs that do not as yet have them. This Project will offer training and technical assistance in the necessary skills for those NGOs that do not already have them. For new IIs, USAID will conduct technical and administrative capability assessment.

In energizing an association of PVOs (possibly PINOI) the technical skill of designing or updating a database that will become an information/resource for development information is needed. One possibility is to maintain and customize the Co-Fi database developed by UPECON. This can also be used by OFFPVC to monitor progress of the various PVO's sub-projects.

Annex H

FINANCIAL ANALYSIS/ FINANCIAL TABLES

ANNEX H FINANCIAL ANALYSIS

Financial Analysis is an integral part of developing/evaluating viable and effective projects. While PVO Co-Financing IV will definitely result in a variety of quantifiable and non-quantifiable benefits, assessment of the overall financial viability of the Co-Financing IV Project cannot be reasonably estimated, at this time, due to the diverse nature of the activities to be undertaken and to the indeterminate design, at this stage, of the subprojects/credit activities which will be supported. Financial analysis will be done at the subproject stage, once the grantees and the specific subproject activities to be financed have been identified. As prescribed by USAID, each PVO project proposal will include a brief financial analysis of its proposed activity. USAID, specifically, the Office of Financial Management (OFM) will review the financial analysis done by the PVO. OFM will assist the PVO proponent in the formulation of additional financial analysis, if deemed necessary. Pro-forma financial analytical methods and formats may be suggested by OFM to facilitate the review process. OFM will review the reasonableness of the basic assumptions, and the PVO's calculation based on techniques used.

For subprojects involving credit activities, USAID will review consistency of credit policy guidelines of the PVO with USAID credit policy and work out, whenever necessary, appropriate credit policy covenants in the grant agreement. For subgrants on credit activities, OFM views the assessment of the financial viability of specific activities as primarily the function of the Intermediary Institution (II). However, OFM may review, on a random sampling basis, the financial analysis and reasonableness of assumptions on interest rates for the locality made by the IIs. USAID's Project Committee will determine whether the credit activity complies with AID policy on credit and the credit policy covenants established in the grant agrreement with the IIs.

For projects involving income-generating activities, it is critical to assess whether they will be profitable for individuals or enterprises undertaking them. Essentially, financial internal rate of return will be used as a tool in determining financial feasibility. Other financial analysis tools are cash flow analysis, debt-service coverage, return on equity and sensitivity tests.

For projects involving non-income generating activities, cost effectiveness analysis and/or recurrent cost or budgetary analysis will determine the financial soundness of the subprojects.

In addition to above financial analysis, any proposals with credit component must include a summary of the credit procedures which will be employed and an explanation of how these comply with USAID's credit policy. The major purpose of USAID's Mission Intermediate Credit Policy is to ensure that loan funds are not decapitalized, but that they can be sustained for further lending activities.

Positive indications on the financial sustainability of specific project undertakings tend to lend positive indications of financial soundness. Track record of PVO implementors of predecessor Co-Financing projects demonstrate enhanced financial capabilities to generate counterpart fund of 30% to 50% of project costs and increased possibilities of larger and better established IIs to mobilize non-USAID resources. This lends positive indications to Co-Financing IV's financial sustainability. Detailed discussion of these two factors are as follows:

1. Access to Credit in Areas Outside Metro Manila

PVO Co-Financing IV plans to provide access of PVOs for credit through the use of IIs acting like development banks outside Metro Manila. This would assist in setting up the credit activities of the IIs. The initial strategy is to convince bankers who sit on boards of II foundations, to make this credit available at commercial rates of interest to small and micro businesses outside Metro Manila area (Co-Financing IV target communities) . The advantage to the bank would be that they would not have to administer the small loans since this would be done by the PVO/IIs and therefore, the management task for the banks would be reduced and would still be in compliance with the intent of the law and regulation. Successful implementation of this component would result in enormous leveraging and economic impact in non-Manila areas. If above strategy is abandoned, such as if the commercial bankers did not agree to the proposal, CO-Financing IV resources could be used to start credit activities or to leverage more modest non-USAID resources that would be self-sustaining. Experience in Co-Finanacing III with credit activity for enterprise development has demonstrated that carefully planned and executed enterprise financing can have a success rate of from 95% to 100% in repayment rates.

Example of Commercial Credit Component

There will be no single model for accessing the commercial credit component of this project. However, to illustrate the financial feasibility of a credit activity, the following pro-forma was developed using data developed for TSPI by the Asian Institute of Management (AID) in a study examining the financial feasibility of a proposed pivate development bank. Because a private

96

development bank would (1) receive deposits, (2) have central bank reserve requirements and (3) have equity capital and NGO's would not; the data gathered from the AID study has been modified and simplified for the purpose of this pro-forma.

Assumes NGO access to commercial credit of Pesos 40 million, 16 percent interrest per annum, and an corresponding loan protfolio.

1. Income

Interest Income loans to be made at an interest rate of 25% p.a.			Pesos 10,000,000

2. Expenses

Interest Expense	Pesos	6,400,000	
Salary Cost (18 staff)		990,000	
Personnel Benefits(12% of salary)		118,800	
Bad debt write-off		940,000	
Depreciation of Fur/Eqpt		100,000	
Rent		120,000	
Office Supplies		120,000	
Utilities		72,000	
Communication and Mail		48,000	
Transportation		120,000	
Insurance		40,000	
Security and Maintenance		120,000	
Other Miscellaneous Costs		100,000	
	Pesos	9,288,800	
			9,288,800
Net Annual Capital Build-up	Pesos		711,200

Assumes an investment of Pesos 500,000 and a 5 year depreciation schedule.

This model assumes a completely free-standing credit operation with completely separate offices, staff and equipment. The PVOs, in almost every case, will be able to trim the expense side of the model substantially by more fully utilizaing assets already available to them. Also, since grant funds will be used over the term of this project to administer the project component, the actual capital build-up would be:

Net Captial Buid-up	Pesos	711,200
Grant Funded Costs		2,888,800
Total Capital Build-up per year-	Pesos	3,600,000

A sensitivity analysis on relending activities was done using two scenarios of (1) traditional credit lending and (2) leveraging against the project credit component of US$8.0M. The analysis shows at the relending rate of 21 percent, a range of 22,595 to 80,000 beneficiaries could be reached. At the relending rate of 25 percent, a range of 23,444 to 81, 531 beneficiaries could be reached. The multiplier effect of beneficiaries is obtained through leveraging funds at the ratio of 2:1. Average loan amounts were calculated from Pesos 5,000 to Pesos 10,000. The tables shows that with leveraging, at 21 percent, additional 17,405 beneficiaries could be served if loans averaged at Pesos 10,000.

Net capital build up for a projected 5 year program at 21 percent, without leveraging would amount to Pesos 33,450,718 or US$1,338,029. ($1=Pesos 25). Without leveraging, at 25 percent relending rate, net capital build up amounts to Pesos 44,609,625 or US$1,784,385 ($1=Pesos 25). The leveraging strategy would reach out to more beneficiaries given the specific time frame of the project. The no-leveraging strategy would afford greater capital build up for the PVO s for income-generating projects.

2. PVO Track Record on Counterpart Contributions

Counterpart contributions from predecessor Co-Financing projects indicate that most grantees, while required to contribute 25 percent of total project costs, actually generated 30 percent to 50 percent of total project costs. Of the approximately 113 fully registered PVOs, 30 percent of these is anticipated to receive grants under the Co-Financing IV. Given further grants in Co-Financing IV, it is therefore expected that these PVOs either maintain or further enhance their counterpart generative capabilities which will benefit target communities as a whole. These benefits could not be easily quantified at this time.

Presented below are the financial tables in support of Chapter IV. Cost Estimates and Financial Plan and the Sensitivity Analysis Tables for the credit component.

98

Table I
PVO Co–Financing IV
Illustrative Financial Plan
(US$000)

Table 1.A

COST ELEMENTS	FY 93 OBLIGATION	FUTURE YEARS ANTICIPATED	TOTAL COSTS	PVOs/NGOs CONTRIBUTION	LOP COSTS
1. Grants to PVOs & Coops	2,470	15,080	17,550	8,000	25,550
2. Project Development	130	760	890		890
3. Project Monitoring/Audit	70	380	450		450
4. Technical Assistance	130	410	540		540
5. Training & Seminars	100	200	300		300
6. Evaluation	0	270	270		270
TOTAL	2,900	17,100	20,000	8,000	28,000

Table 1.B

PROJECT COMPONENTS	FY 93 OBLIGATION	FUTURE YEARS ANTICIPATED	TOTAL COSTS	PVOs/NGOs CONTRIBUTION	LOP COSTS
1. Capability Building	2,560	14,970	17,530	7,280	24,810
2. Broadening PVO Coverage	.197	1,103	1,300	560	1,860
3. Strengthening PVO Coordination & Advocacy	56	394	450	160	610
4. Monitoring/Evaluation/Audit	87	633	720	0	720
TOTAL	2,900	17,100	20,000	8,000	28,000

Footnotes:

Table 1.A reflects cost elements. Project financial recording and reporting of PVOs/NGOs and USAID will be made against these project costs.

Table 1.B shows project components. Project components will serve as project performance indicators to measure goal/purpose achievement.

99

TABLE 2
PVO CO-FINANCING IV
PLANNED YEARLY OBLIGATIONS & EXPENDITURES
(US$000)

	IMPLEMENTATION YEARS					
	1 1993	2 1994	3 1995	4 1996	5 1997	GRAND TOTAL
LOP Funding						20,000
Planned Obligations	2,900	4,500	5,000	4,700	2,900	20,000
Cumulative Obligations	2,900	7,400	12,400	17,100	20,000	
Planned Expenditures (From Table 5)	1,500	5,195	4,755	4,290	4,260	20,000
Cumulative Expenditures	1,500	6,695	11,450	15,740	20,000	
Projected Mortgage (LOP- Cumulative Obligations)	17,100	12,600	7,600	2,900	0	
Mortgage/LOP	86%	63%	38%	15%	0%	
Projected Pipeline (Cum.Obligations-Cum.Expenditures)	1,400	705	950	1,360	0	
Pipeline/Obligations	48%	10%	8%	8%	0%	
Planned PVO/NGO Counterpart Cash and in-kind						8,000

TABLE 3
PVO CO-FINANCING IV
PLANNED YEARLY OBLIGATION BY FUNCTIONAL ACCOUNT
(US$000)

Account	YEAR 1	2	3	4	5	TOTAL	%
ARDN	2,000	3,200	3,700	1,100	0	10,000	50%
HEALTH	500	500	500	1,200	1,300	4,000	20%
EHR	300	500	500	1,000	1,200	3,500	18%
PSEE	100	300	300	1,400	400	2,500	12%
TOTAL	2,900	4,500	5,000	4,700	2,900	20,000	100%

Table 4
PVO CO-FINANCING IV
SUMMARY OF COST ESTIMATES AND FINANCIAL PLAN
(US$000)

Table 4.A

COST ELEMENTS	USAID LC	USAID FX	USAID TOTAL	TOTAL NGOs/PVO	LOP COSTS
1. Grants to PVOs/Coops	17,550	0	17,550	8,000	25,550
2. Project Development	350	540	890		890
3. Project Monitoring/Audit	450	0	450		450
4. Technical Assistance	0	540	540		540
5. Trainings & Seminars	300	0	300		300
6. Evaluation	0	270	270		270
TOTAL	18,650	1,350	20,000	8,000	28,000

Table 4.B

PROJECT COMPONENTS	USAID LC	USAID FX	USAID TOTAL	TOTAL NGOs/PVO	LOP COSTS
1. Capability Building	16,548	982	17,530	7,280	24,810
2. Broadening PVO Coverage	1,227	73	1,300	560	1,860
3. Strengthening PVO Coordination & Advocacy	425	25	450	160	610
4. Monitoring/Evaluation/Audit	450	270	720	0	720
TOTAL	18,650	1,350	20,000	8,000	28,000

Footnotes:

Table 4.A reflects cost elements. Project financial recording and reporting of PVOs/NGOs and USAID will be made against these project costs.

Table 4.B shows project components. Project components will serve as project performance indicators to measure goal/purpose achievement

TABLE 5
PVO CO-FINANCING IV
PROJECTION OF EXPENDITURES BY FISCAL YEAR & PROJECT ELEMENT
(US$000)

Table 5.A

COST ELEMENTS	FY 1			FY 2			FY 3			FY 4			FY 5			TOTAL USAID			GRAND TOTAL PVOs/ NGOs
	LC	FX	SUB TOTAL	LC	FX	SUB TOTAL	LC	FX	SUB TOTAL	LC	FX	SUB TOTAL	LC	FX	SUB TOTAL	LC	FX	Total	
1. Grants to PVOs/NGOs	1,233	0	1,233	4,541	0	4,541	4,151	0	4,151	3,850	0	3,850	3,775	0	3,775	17,550	0	17,550	8,000
2. Project Development	32	44	76	85	143	228	77	105	182	78	131	209	78	117	195	350	540	890	
3. Project Monitoring/Audit	48	0	48	132	0	132	90	0	90	90	0	90	90	0	90	450	0	450	
4. Technical Assistance	0	75	75	0	189	189	0	164	164	0	99	99	0	13	13	0	540	540	
5. Trainings & Seminars	68	0	68	105	0	105	42	0	42	42	0	42	43	0	43	300	0	300	
6. Evaluation	0	0	0	0	0	0	0	126	126	0	0	0	0	144	144	0	270	270	
TOTAL	1,381	119	1,500	4,863	332	5,195	4,360	395	4,755	4,060	230	4,290	3,985	275	4,260	18,650	1,350	20,000	8,000

Table 5.B

PROJECT ELEMENTS	FY 1			FY 2			FY 3			FY 4			FY 5			TOTAL USAID			GRAND TOTAL PVOs/ NGOs
	LC	FX	SUB TOTAL	LC	FX	SUB TOTAL	LC	FX	SUB TOTAL	LC	FX	SUB TOTAL	LC	FX	SUB TOTAL	LC	FX	Total	
1. Capability Building	1,215	108	1,323	4,302	302	4,604	3,882	241	4,122	3,609	209	3,818	3,541	123	3,663	16,548	982	17,530	7,280
2. Broadening PVO Coverage	90	8	98	319	22	341	288	18	306	268	15	283	263	9	272	1,227	73	1,300	560
3. Strengthening PVO Coordination & Advocacy	31	3	34	110	8	118	100	6	106	93	5	98	91	3	94	425	25	450	160
4. Monitoring/Evaluation/Audit	45	0	45	131	0	131	91	130	221	91	0	91	91	140	231	450	270	720	0
TOTAL	1,381	119	1,500	4,863	332	5,195	4,360	395	4,755	4,060	230	4,290	3,985	275	4,260	18,650	1,350	20,000	8,000

Footnotes:

Table 5.A reflects cost elements. Project financial reporting and recording of PVOs/NGOs and USAID will be made against these project costs.

Table 5.B shows project components. Project components will serve as project performance indicators to measure goal/purpose achievement

TABLE 6
PVO CO-FINANCING IV
METHODS OF IMPLEMENTATION AND FINANCING
(US$000)

	a. Cost Element/ b. Method of Implementation	Method of Financing	Total Cost ($ 000)
1.	a. Grants to PVOs and Coops. b. AID Direct Grants	Advance Payment to PVOs/NGOs	17,550
2.	a. Project Development b. AID Direct Contracts	Direct Payment to Contractors	890
3.	a. Project Monitoring/Audit b. AID Direct Contracts	Direct Payment to Contractors	450
4.	a. Technical Assistance b. AID Direct Contracts	Direct Payment to Suppliers/Contractor	540
5.	a. Training and Seminars b. AID Direct Contracts	Direct Payment to Suppliers/Contractors	300
6.	a. Evaluation b. AID Direct Contracts	Direct Payment to Contractors	270
	TOTAL AID COST		20,000

SENSITIVITY ANALYSIS TABLES

BASIC ASSUMPTIONS:

1. 8 million dollars loan fund at P25=$1 or P200,000,000.
   - Year 1 = $604,000 or P15,100,000
   - Year 2 = $2,101,000 or P52,525,000
   - Year 3 = $1,881,000 or P47,025,000
   - Year 4 = $1,742,000 or P43,550,000
   - Year 5 = $1,672,000 or P41,800,000
2. 16% borrowing rate per annum
3. 7% expenses based on principal
   Expenses for salaries, benefits, write-offs, depreciation, rent, utilities, communications, misc.
4. Net positive capital build-up from prior years added to current year relending levels
   Note – No carry-over for negative net capital build-up
5. Interest earned on added net capital build-up

A. NO LEVERAGING

LENDING RATES

	21%					25%				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5
1. INCOME										
interest income on principal	3,171,000	11,030,250	9,875,250	9,145,500	8,778,000	3,775,000	13,131,250	11,756,250	10,887,500	10,450,000
interest on capital build-up prior year	0	443,940	1,637,462	1,726,402	1,642,914	0	679,500	2,533,500	2,749,500	2,647,125
LESS:										
2. EXPENSES										
Other exps. 7% of principal*	1,057,000	3,676,750	3,291,750	3,048,500	2,926,000	1,057,000	3,676,750	3,291,750	3,048,500	2,926,000
NET ANNUAL CAPITAL BUILD-UP	2,114,000	7,797,440	8,220,962	7,823,402	7,494,914	2,718,000	10,134,000	10,998,000	10,588,500	10,171,125
ADD:										
Grant funded cost – other exps*	1,057,000	3,676,750	3,291,750	3,048,500	2,926,000	1,057,000	3,676,750	3,291,750	3,048,500	2,926,000
TOTAL CAPITAL BUILD-UP PER YEAR	3,171,000	11,474,190	11,512,712	10,871,902	10,420,914	3,775,000	13,810,750	14,289,750	13,637,000	13,097,125
ESTIMATED BENEFICIARIES AT P 5,000 OR	3,020	10,928	10,964	10,354	9,925	3,020	11,049	11,432	10,910	10,478
P10,000	1,510	5,464	5,482	5,177	4,962	1,510	5,524	5,716	5,455	5,239

B. LEVERAGE AT THE RATIO OF 2:1
Current average bank requirement is 50%

RE-LENDING RATES

	21%					25%				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5
1. INCOME										
interest income on principal	6,342,000	22,060,500	19,750,500	18,291,000	17,556,000	7,550,000	26,262,500	23,512,500	21,775,000	20,900,000
interest on capital build-up prior year	0	0	0	0	0	0	151,000	563,000	611,000	588,250
LESS:										
2. EXPENSES										
Interest Expenses 16% of principal	4,832,000	16,808,000	15,048,000	13,936,000	13,376,000	4,832,000	16,808,000	15,048,000	13,936,000	13,376,000
Other exps. 7% of principal*	2,114,000	7,353,500	6,583,500	6,097,000	5,852,000	2,114,000	7,353,500	6,583,500	6,097,000	5,852,000
NET ANNUAL CAPITAL BUILD-UP	(604,000)	(2,101,000)	(1,881,000)	(1,742,000)	(1,672,000)	604,000	2,252,000	2,444,000	2,353,000	2,260,250
ADD:										
Grant funded cost – other exps*	2,114,000	7,353,500	6,583,500	6,097,000	5,852,000	2,114,000	7,353,500	6,583,500	6,097,000	5,852,000
TOTAL CAPITAL BUILD-UP PER YEAR	1,510,000	5,252,500	4,702,500	4,355,000	4,180,000	2,718,000	9,605,500	9,027,500	8,450,000	8,112,250
ESTIMATED BENEFICIARIES AT P 5,000 OR	6,040	21,010	18,810	17,420	16,720	6,040	21,131	19,260	17,909	17,191
P10,000	3,020	10,505	9,405	8,710	8,360	3,020	10,565	9,630	8,954	8,595

BASIC ASSUMPTIONS:

1. 8 million dollars at $1=P25 or P200,000,000
2. 16% borrowing rate per annum
3. 7% expenses based on principal
4. Net positive capital build–up from prior year added to current year relending levels
5. Interest earned on added net capital build–up

A. NO LEVERAGING

	21% Lending rate		
	Net Capital Build–Up	Beneficiaries	
		P5,000 Level	P10,000 Level
Year 1	2,114,000	3,020	1,510
Year 2	7,797,440	10,928	5,464
Year 3	8,220,962	10,964	5,482
Year 4	7,823,402	10,354	5,177
Year 5	7,494,914	9,925	4,962
TOTAL	33,450,718	45,191	22,595

25% Lending rate		
Net Capital Build–Up	Beneficiaries	
	P5,000 Level	P10,000 Level
2,718,000	3,020	1,510
10,134,000	11,049	5,524
10,998,000	11,432	5,716
10,588,500	10,910	5,455
10,171,125	10,478	5,239
44,609,625	46,889	23,444

B. LEVERAGE AT THE RATIO OF 2:1

	21% Re–lending rate		
	Net Capital Build–Up	Beneficiaries	
		P5,000 Level	P10,000 Level
Year 1	(604,000)	6,040	3,020
Year 2	(2,101,000)	21,010	10,505
Year 3	(1,881,000)	18,810	9,405
Year 4	(1,742,000)	17,420	8,710
Year 5	(1,672,000)	16,720	8,360
TOTAL	(8,000,000)	80,000	40,000

25% Re–lending rate		
Net Capital Build–Up	Beneficiaries	
	P5,000 Level	P10,000 Level
604,000	6,040	3,020
2,252,000	21,131	10,565
2,444,000	19,260	9,630
2,353,000	17,909	8,954
2,260,250	17,191	8,595
9,913,250	81,531	40,764

105

LESSONS LEARNED ON THE CREDIT COMPONENT OF PVO CO-FINANCING III PROJECT

The credit component of the PVO Co-Fi III Project had three implementation strategies: income-generating enterprise development; production, marketing and credit associations and cooperatives; and sublending credit operations. Through these strategies approximately $1 million in USAID funding was allocated as loan funds for credit-related microenterprise development activities implemented by 8 PVOs. Another 25 PVOs operate smaller loan assistance schemes, providing credit to individuals, coops and other small groups or organizations.

PVO Co-Fi III credit assistance was being directed primarily toward micro and small business enterprises in rural, low-income areas, through sublending programs. PVOs engaged in these schemes usually encourage beneficiaries to graduate from one borrowing level to a more demanding one.

Some valuable lessons were learned from the implementation of the PVO Co-Fi III credit component. The mid-term strategic assessment of the project credit component found that many of the PVOs that are implementing programs that involve loans to micro and small-scale enterprises, eventually result in the repayment of all of the capital provided. It further stated that this will become an increasingly important feature of grantee activity as it provides PVOs with a means by which to secure their own sustainability.

Accordingly, **one of the lessons learned from the implementation of the credit component of PVO Co-Fi III is that when implemented successfully, a loan program provides not only an effective means of raising income levels in depressed communities, but also helps to ensure the sustainability of the PVO itself.** Accordingly, it was decided that USAID should encourage PVOs to strengthen their own sustainability by utilizing some of the resources generated through subproject lending activities.

The PVO Co-Fi III program also provides numerous examples of innovative approaches in establishing sustainable sublending credit operations for the benefit of small entrepreneurs. Successful Income Generating Projects (IGPs) can be characterized as those which cause an increase in output greater than the cost of the inupts they require. In this regard, Tulay Sa Pag Unlad's (TSPI) financial and technical assistance to the small enterprise sector is clearly an example of a successful project with high impact. PVOs such as TSPI provide direct loans to small-scale income-generating enterprises in amounts ranging from 50,000 pesos to 250,000 pesos.

TSPI also has a lending program that caters to sub-borrowers with asset bases of up to P5 million who have viable job-creating projects, but who are not big enough to meet the minimum lateral requirements of banks.

TSPI's goal is to help these viable but non-bankable enterpreneurs progress to the point where they will be bankable in the future. A sampling of firms assisted by TSPI revealed an average increased net profits of over 90%, with even greater returns accruing to manufacturing firms. **The lesson learned from analysis of this project was that larger loans, particularly to to the manufacturing sector, generate significantly higher levels of income and employment than smaller ones at relatively the same delivery cost.**

Although IGPs undertaken by other PVOs such as the Ramon Aboitiz Foundation, Inc. (RAFI), Negros Economic Development Foundation (NEDF), and the Kapwa Upliftment Foundation are also successful, their impact is moderate due to the type of economic activity selected as a target for assistance. **Herein lies another important lesson for project design. By a considerable margin, the largest single category of assisted small-scale enterprise was retail trading. Although they have other advantages and disadvantages from a development point of view, firms engaged in retail trade do not generate backward linkages, one of the major contributors to a favorable level of benefits.** As a result of this finding, PVO Co-Fi IV will focus more of its credit lending activities on larger-scale programs outside the sphere of retail trading.

PVO Co-Fi III placed considerable emphasis on the implementation of income/employment generating activities. These are broadly characterized as the operations of small enterprises, including one person firms and tiny family operations which are generally considered to be relatively easy to start. This reflects the experience that small, labor intensive enterprises and income-augmenting activities may be appropriate mechanisms for dealing with rising unemployment and the perpetuation of poverty in the Philippines.

PVOs are particularly well positioned to facilitate the development and positive impacts of IGP-type activities since they tend to operate in the same areas over extended periods of time. With regard to assistance to micro and trade-related enterprises, there has been much debate over the issue of cost. A common question that repeatedly arises is what price must be paid to ensure that projects benefit those who are must difficult to reach? During field visits and review of subproject files, it was seen that a number of IGP activities targetted microenterprise and trading businesses that are fairly costly to administer. On the other hand, there are cases, like that of the Mother Rosa Memorial Foundation (MRMF), which have proved extremely successful and cost-effective. MRMF operates a successful credit scheme for rural farmers that has created over 20,000 jobs since 1987, at a cost of $7.50 per job.

Microlink, Philippines also implements a highly productive credit

107

program that is geared toward small enterprise development designed to generate employment. Since 1986, Microlink has succeeded in creating 10 independent, self-sustaining business associations, with 10 others in operation but not yet self-sufficient. Through these activities, Microlink has created over 1,000 permanent jobs.

Hence another lesson learned: **The economic impacts that accrue from credit and technical assistance to small enterprises can vary widely in terms of return. When planning assistance which includes the use of IGPs, there is a need to explicitly define which level of impacts are to be emphasized and design development assistance accordingly.** It is expected that some proportion of microfirms will truly break out of the "micro" level and evolve into economically sustainable units. these types of goals, when introduced in the context of a more economically-oriented project, will serve to motivate beneficiaries with productive potential and provide them with opportunities in the formal economy.

A lesson learned from evaluation of the operations of credit schemes on the beneficiary level is as follows: When assistance is intended for income and employment generation, economic impacts are more likely to accrue and endure when loans to beneficiaries meet the following criteria:

a. they are for longer rather than shorter terms;

b. are for fixed rather than working capital;

c. are provided to new firms rather than for the expansion of existing ones;

d. are provided to firms larger than microsector entities and to productive enterprises such as manufacturing rather than those involved in service activities or retail trade.

In addition, mechanisms must be in place for loan repayment. Strict policies for enforcing repayment are essential, including the use of collateral and recourse to the legal system. Incentives such as the prospect of repeat loans must also be part of the overall loan program.

The criteria for loans/repayment above were incorporated into the design of PVO Co-Fi IV as follows:

Another lesson learned involves monitoring of reflows after PACD; how long after the PACD credit reflows should be monitored by grantees or USAID. During the implementation of PVO Co-Fi III, there were no set regulations regarding term of post-PACD monitoring and evaluation. This lack of procedure led to ineffecient follow-up information on sustainability and effectiveness of the programs. **The time at which monitoring of the use of credit reflows is no longer necessary needs to be standardized.**

Annex I

ECONOMIC ANALYSIS

109

ANNEX I ECONOMIC ANALYSIS

1. Economic Framework

The framework underlying assistance to PVOs can be viewed best within the context of an economic environment where the poor Filipino farmer, small entrepreneur, landless worker, or plan housewife are all considered rational economic agents, responding favorably to market signals. His or her response behavior, however, is conditioned by several factors. One's educational and cultural background may inhibit one's response to market stimuli. On the other hand, the external environment has generally been a constraint to such response and to overall community development, such as lack of access to credit, poor soil conditions, inadequate production and marketing information, lack of supply of skilled workers and managers, erosion of natural resource base, insanitary water supply, inadequate health support services. These factors impinge upon the abilities of community members like poor farmers and struggling microentrepreneurs to fulfill their productive potential. In other words, the market signals themselves may be distorted or may not be all that strong by the time they reach the potential project beneficiaries or community members. It is in this context that project interventions by PVOs together with the government, are seen and contemplated.

2. Economic Impact

Because of the nature of Co-Financing IV design, i.e. specific PVO activities will be determined only upon receipt of project proposals, detailed economic analysis cannot be undertaken prior to the design of each subproject to be financed under the project. Hence, assessment of the economic merits of a subproject will be done when the proposal is received. Each PVO project proposal will include a short analysis of the expected economic effect of project activities on the target beneficiaries and the per capita cost (cost per beneficiary) of achieving these beneficial effects. For income generating projects (IGPs), to the extent the PVOs can supply information by filling out the Economic/Financial Analysis Forms, comparison of subproject costs and benefits will be greatly facilitated. For non-income generating projects, cost-effectiveness analysis, least-cost analysis or required minimum benefits approach can be utilized to determine subproject economic soundness. USAID will review each subproject proposal for economic viability. Subprojects of an income producing nature will be required to demostrate an economic rate of return equal to the social discount rate currently used by the National Economic Development Authority.

At the subgrant level, the II, to the extent that it is judged technically capable, will assess economic feasibility of subgrants. Whenever necessary, USAID will assist IIs in this work.

To facilitate the USAID or II review process, some small funds under Co-Financing IV will be set aside to finance economic studies of prototype income generating projects. Also, more attention needs to be given to collecting data and information which will facilitate evaluating the project later. Better baseline data would make later reviews more fruitful. Some follow up studies or reports on former beneficiaries to track attrition will be most useful. Again, funds for such baseline surveys and evaluation activity will need to be made available under Co-Financing IV.

The ultimate impact of PVO project interventions can be seen from its effects on the welfare of target project beneficiaries. Such impact may materialize only if project output is in fact delivered and project effects by way of beneficiaries availment of the output are in fact observed. These welfare effects under Co-Financing IV can be substantiated come evaluation time.

Past experience under Co-Financing II and III had shown that PVO projects carry a discernible positive impact on their beneficiaries as found in late 1991 by the UPEcon Foundation Study on the Economic Impact of the PVO Co-Financing Program. But at what cost is the positive impact achieved? Comparing the estimated increase in income per beneficiary with project cost per beneficiary, IGPs (however, noting that retail trade have little forward or backward linkages with other sectors of the economy) are generally found to be economically sound with economic internal rate of return of return at around 26 percent. The economic return for agricultural credit and extension projects is marginal, but has helped increase farm incomes but the costs involved in implementing the projects were high. Technical assistance or extension work showed a more positive impact than access to loans per se.

3. Recommended Directions for Resource Allocation and Use

The basis for allocating resources under Co-Financing IV was drawn largely from the experience gained from the three previous Co-Financing projects and the findings from the two strategic assessments of Co-Financing III conducted in 1989 and 1991 by USAID consultants and the evaluation of the economic impact of the Co-Financing program in late 1991 by UPEcon Foundation.

The 1991 assessment suggested that the USAID begin directing an increased share of Co-Financing to IIs, to capitalize on the success IIs have had in leveraging USAID resources, and to

\\\

establish a sound and self-sustaining basis for continuing efforts to develop PVO institutional and outreach capacities.

The assessment also recommended that future Co-Financing activities be weighted toward income generating projects (IGPs), with IIs operating more and more like bank windows and sublending to micro and small enterprises that are not currently being accommodated by commercial banks. It was noted that putting increased emphasis on IGPs would contributed significantly towards increasing job opportunities and incomes in the low income communities being assisted.

The UPEcon Foundation study suggested that efforts should be directed at reducing the cost of project interventions for agricultural credit and extension projects, without necessarily reducing project effectiveness. It also recommended that PVOs should be challenged to promote activities that have wider linkages to the economy and serve larger markets rather than focusing mostly in retail trade which has small multiplier effects within the confines of the target community.

Because of the more positive impact of technical assistance or extension work, the UP study advised on more such type of activities and increasing the share of projects which are "closer to the ground" or have a more direct impact on the poor beneficiaries. It also recommended that a balance must be struck between assistance today and building capacity for assistance tomorrow in the light of its findings that a huge share of grant funds goes into "institution building" or the development of the PVOs themselves. It also urged that greater effort be exerted to encourage project proposals from PVOs working in the poorer regions which the Co-Financing program has not reached or has not reached significantly. Also, it suggested that the Co-Financing program should aim for greater share of cultural minority projects in grant funds.

The UPEcon study observed that the share of PVO resources in total project cost has fallen under Co-Finacing III. A review of the guidelines, with an eye towards alignment of local PVO resource contributions to total project cost and to some measure of the capacity of PVOs to generate funds or their asset base, is desired.

The study found wide variation among PVOs in the magnitude of their program costs, i.e. expenditures on training, seed capital, subgrants and other direct costs such as technical assistance, marketing services, cooperative store operations, materials production and case study development. Across project categories, the lowest was in health and housing with 51 percent while the highest is in institution building with 78 percent. There was also a significant increase in the share of program expenditures from 55 percent in 1984 to 78 percent in 1991.

The study also noted that there was no uniformity in the treatment of personnel costs. In some case, only administration and management personnel are included, with direct personnel such as trainors and extension workers classified under program costs. In other cases, however, loan officers, extension agents and community development workers are listed under personnnel expenses. Also, while subgrants fall under program costs, they may contain administrative and management costs of the subgrantees. The study recommends adoption of more uniform guidelines for easier monitoring of how much of total project cost are really spent on direct beneficiaries and on project management overhead. At the same time, PVO grantees should be encouraged to increase the share of direct program expenditures, i.e. present 20 percent to total budget ceiling on administration costs exclude administrative personnel which do not reflect total costs of project administration. For subgrants, the study recommends that care should be taken that they are not "overmanaged." In many projects, there are project managers from both the main grantee and the subgrantees.

The Co-Financing IV project will attempt to respond to these concerns. The approach being taken under the project is to begin directing an increased share of Co-Financing financing to IIs to enhance the prospects for leveraging USAID resources through community based credit programs, and by making a concerted effort to access the funding resources of the country's commercial banking establishment. Increased emphasis is being put on IGPs under the Co-Financing IV project in order to increase job opportunities and incomes in low income communities. Steps are also being taken under the Project to broaden the outreach of the Co-Financing program to give greater coverage to the country's more remote communities. Special effort is being made to support the establishment of a larger number and more diverse group of indigenous PVOs and to provide direct grants to PVOs representing ethnic and religous minorities in the more remote areas of the Philippines. It should be noted that there is a considerable short term economic cost involved in broadening project outreach to these communities. Conversely, there is also a long term economic benefit, in as much as it is in these areas that costly and sustained insurgencies have been maintained.

Annex J

SOCIAL SOUNDNESS ANALYSIS

114

ANNEX J. **SOCIAL SOUNDNESS ANALYSIS**

The Social Soundness Analysis was conducted by the U.P Social Action and Development Foundation, under contract from USAID, for the PVO Co-Financing IV Project. Presented below are the salient findings of the study:

1. **Socio-Cultural Fit.** The Team noted the sociocultural fit of the proposed Project with the target beneficiaries' cultural values and environment. This fit results from the fact that the Project has been preceded by similar projects which have been found to be highly valued in the areas where they were implemented. Such value results from the need for external assistance into local areas which are combined with NGO and people's organizations' (PO) initiatives to alleviate poverty through income and employment generation activities.

The interviews conducted by the team reveal that these PVOs do not serve only as financial intermediaries. They have also successfully served as sociocultural intermediaries undertaking social preparation activities, creatively adapting project requirements into acceptable and do-able commitments at the grassroots level. The crucial role of these IIs in linking the modern and traditional sectors in development endeavors cannot be gainsaid.

The major source of sociocultural fit is the ability of an II to provide such social preparation and sociocultural intermediation" For so long as IIs in Co-Financing IV Project are able to continue and even increase their effectiveness in this role, the Project will be compatible with the local culture. To ensure sociocultural fit, therefore, the Co-Fi IV Project should provide adequate distinct support for this function."

If IIs could not undertake the necessary social preparation of target beneficiaries and provide them with the adequate training and skills, especially in financial management, the II could end up with considerable "contingent liabilities" (possibly involving several grantees). This will adversely affect the viability of these IIs. The PBSP interviews indicate that this dilemma translates into IIs directly implementing projects themselves, minimizing subgrantee involvement as a way of retaining control, and bypassing sociocultural intermediation tasks. This tendency, however, is at crosspurposes with the Project's aim to reach out to "invisible" (unaccredited, relatively unknown) NGOs in the countryside.

2. Potential Implementors and Target Beneficiaries. To reach out to harder-to-reach NGOs without compromising project standards and control, the focus should be on II development. The three approaches that could be considered are (1) expanding the

115

operations of current IIs who have a good track record in USAID grant wholesale operations (e.g., Kauswagan, MRMF, PBSP, PCPD, DPF, RAFI, TSPI); (2) upgrading to II status subgrantees who have reached II organizational standards and have acted as quasi-IIs (i.e., MILAMDEC, South Cotabato Foundation, and BRC); and (3) adding to the pool of implementing IIs those with a good track record in wholesale operations outside of the USAID network of IIs and PVOs who are key players in the areas of emphases desired by USAID [e.g., CDRC in disaster mitigation and preparedness), so long as they have the absorptive capacity and desire accreditation with USAID.

Despite some misgivings about the "audit-driven" Project implementation arrangements with USAID, all the IIs interviewed are willing to continue participation and expand their operations. PVOs who could be upgraded and who anticipate being IIs themselves are not yet as affected by rigorous financial management system. IIs like CDRC outside of the existing USAID network are open to receiving USAID grants, although the stringent financial documentation and monitoring procedures they have heard about raises some apprehension.

3. **Impact.** The likely gainers in the Project are (i) the target beneficiary POs and communities for whom specific livelihood and income generating activities will be created, (2) the participating IIs and NGOs, who will increase their capabilities to pursue commitments to poverty alleviation, community development, and people empowerment, and (3) local government units that have worked out a healthy partnership with NGOs, who will be acknowledged for the net increase in basic services to the people that results from this partnership.

The likely losers would be (1) traditional money lenders, including landlords, farm input traders, middlemen, postharvest processors, who provide credit, marketing and processing inputs and services at exorbitant interest rates and fees, (2) traditional politicians and local patrons who have monopolized community decision-making and resource distribution, and who would lose influence if people are empowered through livelihood or income opportunities and self-confidence and awareness, (3) local government units which have developed adversarial relationships with NGOs, and (4) corrupt government officials and employees who will be exposed if increased transparency results from greater NGO involvement in the monitoring and evaluation of basic government services.

4. **Sustainability.** Many of the IIs viewed sustainability of their own organizations mainly in terms of financial viability. They acknowledged that USAID grants account for the bulk of their portfolios (60 percent of Kauswagan, 40 percent of PBSP, 90 percent of Hope.

-116

Sustainability means the capability of an institution to undertake its mission and serve its constituents on a continuing basis without external assistance.

IIs and sub-grantees have considered various ways and means of achieving organizational, financial, and beneficiaries sustainability.

If USAID grants are discontinued, sustainability will be a crucial question. USAID grants will be difficult to replace, unless IIs and NGOs are given time to adjust gradually. A sudden termination of funding could be threatening to DPF, Sidlak, and HOPE, but not to well-established PVOs like PBSP, BRC, PCPD, MRMF. At the moment, many of the IIs and NGOs look to interest earnings from grants and reflows for assurance of sustainability. Survival requirements, however, could get in the way of the NGOs' original purpose of poverty alleviation and income and employment generation among the target beneficiaries.

Sustainability of the project benefits beyond the life of the Project depends on NGOs' capability to generate and mobilize resources. It also requires continued supervision and technical and social problem-solving assistance from the NGO. Premature "weaning" could lead to a reversal of the gains in community organizing and enterprise creation.

5. **Spread Effects.** It is anticipated that spread of project benefits will be geographic, transsectoral and across socioeconomic groups. To dovetail with the decentralization programs of government, the PVO Co-Financing Program must be implemented in several regions to maximize demonstration effects and corresponding replication potentials.

The spread effects may be limited, however, by the audit-driven character of the project. The documentation requirements will constrain small NGOs from participating. IIs may also decide to choose only those POs with some demonstrated capability for financial management.

6. **Gender**. Recent developments auqur well for the continued participation of women in the Co-Financing Program. The survey of the IIs and sub-grantees revealed that women benefitted significantly from Co-Financing's micro-enterprise development and other livelihood' programs (where women accounted for over half of the beneficiaries in some instances) as well as health and population programs. A number of NGOs and IIs are staffed by women (at PCPD 90 percent of the staff are women) and at least three IIs have institutional commitment to a gender-fair development strategy. Benefits from the Co-Fi project will be evenly distributed to women and men if deliberate efforts are made to incorporate gender concerns in planning and implementation of programs. A sharing of current knowledge and

117

skills in gender-sensitive planning and training across IIs and NGOs should be designed into the Co-Financing project, particularly in programs intended for tribal and ethnic communities which have strong patriarchal systems.

7. Monitoring and Evaluation. The Team has identified several sets of indicators for tracking the progress and impact of strengthened IIs and sub-grantees in the Co-Financing project. These indicators measure changes at individual/family, beneficiary community, as well as organizational (PVOs and POs) levels. Specific indicators for organizational growth and strength include: increased program and absorptive capacity, increased organizational specialization, increased institutional and participative decision-making and increased productive interactions among IIs, LGUs and POs. Economic and social indicators are recommended to measure changes at beneficiary and community levels. Additionally, the Team lists indicators of increased GO-NGO networking for disaster mitigation and preparedness and of gender and ethnic group-fairness of projects.

Annex K

ADMINISTRATIVE ANALYSIS

- 119 -

ANNEX K ADMINISTRATIVE ANALYSIS

As with the previous three Co-Financing Projects, the Co-Financing IV will be carried out by PVOs that have become Intermediate Institutions (IIs) and by other PVOs serving either ethnic minority communities or communities that are in geographic areas not covered by the IIs. The Project will be monitored by USAID contractors. The administrative tasks of each of these three bodies are shown below:

Function/Task	Responsibility		
Project Management	AID	II	PVO
Prepare Proposals			X
Planning & Schedule Sub-Project		X	X
Review & Accept Proposals	X	X	
Organizing		X	X
Supervising Project Staff			X
Monitor Sub-project	X	X	
Coordinating with USAID		X	X
Satisfying Conditions Precedent		X	X
Accepting Conditions Precedent	X	X	
Procuring Commodities		X	X
Financial Management			
Establish Time-Phased Finance Plan	X	X	X
Maintain Project Accounting System	X	X	X
Prepare Request for Cash Advance		X	X
Make Disbursements	X	X	
Certify Invoices for Payment	X	X	
Maintaining USAID's Accounts	X		
Reporting			
Review Reports from PVOs	X	X	
Prepare Reports	X	X	X

A. Administrative Responsibilities of IIs

Co-Financing IV, more than its three predecessors, will rely heavily on the IIs as the organizations that will administer this Project. There will be two types of Intermediate Institutions; - those PVOs having already become IIs and those newly appointed as IIs. The first group will have already proven themselves capable of performing the above tasks under the Co-Financing Projects of previous years.

The second group are to be selected from the PVOs that have previously participated successfully in Co-Financing projects as direct sub-grantees, who may qualify as IIs if they meet the folowing criteria:

1. <u>Organization:</u> The PVO must have organizational stability and sustainability with a minimum of three years of operation. Must have been a successful participant as a PVO subgrantee in a Co-Financing Project and will have demonstrated technical and administrative ability in financial and program management, project design, analysis and implementation related to the type of activity to be undertaken. Has an institutional philosopy, setting clear directions for itself.

2. <u>Staff:</u> The PVO must have a capable professional staff with adequate techncial and administrative skills, who are career employees or are otherwise committed to significant long-term involvement in the activities of that PVO. They must have field staff located in the regions of planned activity, or otherwise positioned to be able to adequately monitor implementation.

3. <u>Financial Sustainability:</u> The II candidate must have funding for its core staff in the Philippines from sources other than A.I.D. It must have an overhead that is sufficient enough that it can be used as the required 25 percent project counterpart fund and absorb contingent liabilities from its sub-grantees.

4. <u>Commercial Credit Skills:</u> Must have the qualifications necessary to access the commercial credit component of this project. An II accessing the commercial credit component for enterprise development should have a demonstrated capability in analyzing the financial and economic feasibility of a proposed business.

5. <u>Other Skills:</u> Must be skilled at market analysis and development; the use of non-traditional collateral; and non-traditional collection techniques and loan portfolio management.

The skills noted as Items 4 and 5 above are illustrative of those necessary for successful small enterprise development. This Project will offer training in the necessary skills for those NGOs that do not already have them. USAID will conduct a technical and administrative capability assessment of new IIs prior to provision of grant assistance.

Having fit these standards for qualification provides greater assurance that these IIs can readily administer this Project.

B. Administrative Responsibilities of the PVOs

As shown in the task chart, the PVOs responsibilities are substantial. They must prepare proposals, plan & schedule the sub-project, organize and supervise project staff, coordinate their activities with USAID and satisfy conditions precedent. They will need to procure commodities, establish and maintain a project accounting system and prepare periodical reports on their progress.

All sub-projects will be carried out only by USAID registered PVOs. This registration includes an examination of their management capabilities, audited financial statements and a current operating budget. These attributes are necessary to just receive approval to become a registered PVO.

In order for PVOs to become sub-grantees, they must prepare an acceptable Project Proposal. The format for preparation of this Project Proposal is derived from AID's Project Design Process and includes stating the problem that this project will alleviate; providing baseline data, purpose, objectives and outputs. A project analysis must be prepared from the viewpoint of financial, economic, technical, social soundness, and administrative capabilities plus any environmental concerns.

Further, the Project Proposal submitted by the PVOs must provide a detailed implementation plan including the monitoring and evaluation strategy and a sustainability statement. The Project Proposal prepared by the PVO must include a budget summary that covers costs of personnel, commodities, evaluations, administration and training.

To assist the PVOs in administering the sub-projects, USAID O/FFPVC has provided documents, hand-outs, and brochures demonstrating how to develop implementation plans, monitor and evaluate projects and establish and maintain a financial plan.

The Project Proposal must then be reviewed and approved by a USAID Project Review Committee. Having received this approval is, in itself, substantial assurance of capability to administer the sub-project.

C. Administrative Responsibilities of the USAID

USAID employs full time Personal Services Contractors (PSC) paid from project funds to work with the PVOs. The chart below compares USAID's responsibilities when giving assistance directly to PVOs and when they utilize IIs. As you can see, providing assistance directly to PVOs is quite high staff-intensive.

Function/Task	USAID Responsibility	
	PVO	**II**
Project Management		
Review & Accept Proposals	X	X
Monitor Sub-project	X	
Accepting Conditions Precedent	X	
Financial Management		
Establish Sub-Project Finance Plan	X	
Maintain Project Accounting System	X	
Make Disbursements to IIs		X
Make Disbursements to PVOs	X	
Certify Invoices Payment to PVOs	X	
Maintaining USAID's Accounts	X	X
Reporting		
Review Reports from PVOs	X	
Prepare Reports of PVOs	X	
Prepare Reports of IIs	X	X

However, as shown above, when USAID works through IIs, the PSCs no longer need to monitor the sub-projects, establish and maintain a sub-project accounting system, certify PVO invoices for payment or review and prepare PVO reports. This will result in reduced management burden for the Mission.

Initially, USAID will be directly involved in the new II's process, but as it becomes more institutionalized, USAID will retain only final approval of subgrants.

D. Decentralization and the Co-Financing IV Project

The passing of the Local Government Code devolves to the LGUs both the responsibility and authority of providing basic services and facilities to its local communities. The devolutions that potentially relate to the Co-Financing IV Project include community-based forestry projects, public works infrastructure projects, field health and hospital services, social welfare services, housing projects, enforcement of environmental laws, and enforcement of a national building code.

The Code also mandates that LGUs shall not only promote the establishment of people's and non-government organizations (NGOs) with local autonomy, but that NGOs shall have a substantial role in the various special bodies (i.e. Local Development Councils, School Boards, Health Boards, & Peace & Order Councils). It allocates a minimum membership seat of one-fourth in these bodies, whereas before the maximum NGOs representation was limited to one-fourth. Under the Code, an LGU may now enter into a joint venture with NGOs to deliver basic services. In fact, an LGU may provide assistance, including finances, to an NGO.

Also, one of the desired effects of the Code is reduced patronage and dependency of LGUs to the national government. No project or program shall be implemented by the National Government unless there is prior consultation and approval of the LGU that is affected. Another is that the LGUs are given the authority to receive grants directly from outside and/or from foreign donors without the necessity of securing clearance or approval from any office of the National Government.

Provided that the new government under President Ramos will continue the full support of decentralization, all of these Code attributes shall have a positive influence on the Co-Financing IV Project. The doors are now open to greater policy dialogue between the LGUs and the PVOs; greater local level teamwork; improved LGU facilitation of its' functions through monitoring of NGOs; and as one PVO member stated, "Local level by local level only".

The debatable and unknown factor at this point is the ability of the LGUs to finance the delivery of services for which they are now responsible. While the Code mandates that the LGUs will receive what appear to be greater shares from the national revenues and provisions of wider taxing powers for themselves, the actual amount is still up for question. As stated in Dr. Rosario Manasan's paper, Fiscal Implications of the Local Government Code of 1991, "What are the actual fiscal consequences for LGUs of these revenue enhancing provisions? The question is a critical one, for it is apparent that the decentralization of powers, functions, and responsibilities from the national government to LGUs will be severly weakened, if not completely ineffectial, if LGUs do not have sufficient resources to finance their responsibilities."

Harold L. Dickherber in a memo of May 21, 1992, stated "The issue....is whether or not the increases in IRA (Internal Revenue Allotment) transfers will be adequate to cover the increased resposibility being devolved to the LGU's. They will have more money and more authority and more responsibility, but if they continue the same services in the same manner as were provided by the national agencies, then they will have no increase in discretionary resources. In some cases they may not be able to pay all the bills in 1993."

He went on to say, "If decentralization is better than the present system, then the LGU's will figure out how to allocate the pool of resources available to provide the services they value most. They will also figure out how to increase local revenues with their increased authority."

Summary

Based on the experience of Co-Financing I, II, & III, together with the requirements to become registered as a USAID-approved PVO and the stringent requisites to prepare a Sub-Project Paper, all PVOs and IIs that will participate in Co-Financing IV appear to have both the administrative and organizational capacity to support the Project.

Annex L

ENVIRONMENTAL ANALYSIS

ANNEX L ENVIRONMENTAL ANALYSIS

Environmental Threshold Decision

The PVO Co-Financing IV Project supports the Mission's strategic objectives of a) more efficient delivery of essential services; and b) strengthening PVO capabilities to promote efficient management of natural resources as the grassroots level. Based on available guidelines, it is determined that the Project meets the criteria for a Categorical Exclusion under Section 216.2(c)(2)(i),(iii),(x) and (xiv) of A.I.D. environmental procedures (22 CFR Part 216), quoted as follows:

(i) education, technical assistance or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities);

(iii) analyses, studies, academic or research workshops and meetings;

(x) support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution;

(xiv) studies, projects, or programs intended to develop the capability of recipient countries to engage in development planning, except to the extent designed to result in activities directly affecting the environment (such as construction of facilities).

Activities falling under each of the above areas will be financed under the PVO Co-Financing IV Project through subproject grants made in the form of block grants to PVO intermediate institutions (for onward subgranting to smaller organizations), and grants to individual PVOs. Support will also be given to one or more intermediate credit institution over life-of-project. USAID will not have the reservation or the right to review and approve individual loans made by the institution. Therefore, such support for an intermediate credit institution meets the criteria for categorial exclusion based on Environmental Procedure (x) listed above.

Therefore, neither an Environmental Assessment, nor an Environmental Statement are proposed. However, in order to ensure that subproject grant-funded activities conform with the requirements of the AID Regulation 16, Sect. 216.2, USAID, in consultation with the Mission Environmental Officer (MEO), has established the following procedures for environmental review of each subproject grant proposal prior to obligation of funds:

- subproject grant proponents are required to describe the environmental impact that the proposed activity is expected to have in their proposal documents;

- as part of the subproject grant development process, O/FFPVC coordinates a field exercise to assess the project proponent's managerial capabilities and review project design (including environmental impact) issues;

- O/FFPVC prepares an initial environmental assessment incorporating field review results. This is reviewed by the MEO and forwarded to the Bureau Environmental Officer (BEO) with his/her recommended environmental action. If any subprojects warrant extensive analysis, the assessment will be completed prior to their implementation;

- BEO reviews and comments on the Mission environmental assessment of the subproject grant proposal.

Annex M

PROCUREMENT PLAN

ANNEX M **PROCUREMENT PLAN**

There cannot be a specific procurement plan for this project because the exact activities to be undertaken will not be identified precisely until proposals are received from among the more than 100 PVOs registered with USAID.

In general, however, PVOs will be authorized to use their own procurement systems as long as they incorporate AID's requirements.

Procurement of Goods and Services

The grantee may use its own procurement policies and practices for the procurement of goods and services under this grant, provided they conform to all of AID's requirements listed below and the standard provision entitled "AID Eligibility Rules For Goods and Services".

(a) General Requirements:

(1) The recipient shall maintain a code or standards of conduct that shall govern the performance the performance of its officers, employees or agents engaged in the awarding and administration of contracts using AID funds. Conflict of interest situations involving employees, officers or agents or their immediate families shall be avoided. The recipients' officers, employees or agents shall neither solicit nor accept gratuities, favors or any-thing of monetary value from contractors or potential contractors. Such standards shall provide for disciplinary actions to be applied for violations of such standards by the recipient' officers, employee or agents.

(2) All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient should be alert to organizational conflicts of interest or noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, equirements, statements of work, or requests for proposals should be excluded from competing for such procurements. Awards shall be made to the offeror whose offer is responsive/responsible to the solicitation and is most advantageous to the

recipient, price and other factors considered. Solicitations shall clearly set forth all requirements that the offeror must fulfill in order to be evaluated by the recipient. Any and all offers may be rejected when it is in the recipient's interest to do so.

(3) All grantees shall establish procurement procedures that provide for, at a minimum, the following procedural requirements:

(i) Proposed procurement actions shall allow a procedure to assure the avoidance of purchasing unnecessary items.

(ii) Solicitations for goods and services shall be based upon a clear and accurate description of the technical requirements for the material, product or service to be procured. Such a description shall not, in competitive procurements, contain features which unduly restrict competition.

(iii) Positive efforts shall be made by the recipients to utilize U.S. small business and minority owned business sources of supplies and services. Such efforts should allow these sources the maximum feasible opportunity to compete for contracts utilizing AID funds. The grantee shall to the maximum extent possible provide the following information to the Office of Small Disadvantaged Business Utilization, AID, Washington, D.C. 20523, at least 45 days prior (except where a shorter time is requested of and granted by the Office of Small and Disadvantaged Business Utilization) to placing any order or contract in excess of $25,000:

(A) Brief general description and quantity of goods or services;

(B) Closing date for receiving quotations or proposals; and

(C) Address where solicitations and specifications can be obtained.

(iv) The type of procuring instruments used, e.g. fixed price contracts, cost reimbursable contracts, purchase orders, incentive contracts, shall be determined by the recipient but must be appropriate for the particular procurement and for promoting the best interest of the program involved. In those instances where a cost type contractauthorizes a fee, a fixed amount willbe used in lieu of a percentage of cost.

(v) Contracts shall be made only to responsible contractors who possess the potential ability to perform successfully under the terms and conditions of a proposed contract. Consideration shall be given to such matters as integrity, record of past performance, financial and technical resources. Contracts shall not be made to firms or individuals whose name appears on the AID Consolidated List of Debarred, Suspended, and Ineligible Awardees. AID will provide the grantee with a copy of this list upon request.

(vi) All proposed sole source contracts or when only one proposal is received in which the aggregate expenditure is expected to exceed $10,000 shall be subject to prior approval by an appropriate official within the grantee's organization.

(vii) Some form of price or cost analysis should be made in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, and market prices, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.

(viii) Procurement records and files for purchases in excess of $10,000 shall include the following:

(A) Basis for contractor selection;

(B) Justification for lack of competition when competitive offers are not obtained;

(C) Basis for award: cost or price.

(ix) A system for contract administration shall be maintained to ensure contractor conformance

132

with terms, conditions and specifications of the contract, and to ensure adequate and timely follow up of all purchases.

(b) Each contract and subcontract shall contain in addition to provisions to define a sound and complete contract, the following contract provisions as well as any provision within thisgrant which requires such inclusion of that provision. Whenever a provision is required to be inserted in a contract under this grant, the grantee shall insert a statement in the contract that in all instances where AID is mentioned the grantee's name shall be substituted.

(1) Contracts in excess of $10,000 shall contain contractual provisions or conditions that will allow administrative, contractual or legal remedies in instances in which contractors violate or breach contract terms, and provide for such remedial actions as may be appropriate.

(2) All contracts in excess of $10,000 shall contain suitable provisions for termination by the recipient including the manner by which termination will be affected and the basis for settlement. In addition, such contracts shall describe conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the conractor.

(3) All negotiated contracts over $10,000 awarded by recipients shall include a provision to the effect that the recipient, AID or their duly authorized representatives, shall have access to any books, documents, papers and records of the contractor which are directly pertinent to the specific program for the purpose of making audits, examinations, excerpts and transcriptions.

(4) In all contracts for construction or facility improvement awarded for more than $100,000, recipients shall observe generally accepted bonding requirements.

(5) Contracts, the principal purpose of which is to create, develop or improve products, processes or methods; or for exploration into fields that directly concern public health, safety or welfare; or contracts in the fields of science or technology in which there has been little significant experience outside of work funded by

Federal assistance, shall contain a notice to the effect that matters regarding rights to inventions and materials generated under the contract are subject to the regulations included in these grant provisions. The contractor shall be advised as to the source of additional information regarding these matters.

Source, Origin, and Nationality

The eligibility rules for goods and services are base on source, origin, and nationality and are divided into the two categories. One applies when the total procurement during the life of the grant is over $250,000 and the other applies when the total procurement element during the life of the grant is not over $250,000. The total procurement element includes procurement of all goods (e.g. equipment, materials, supplies) and services. Guidance on the eligibility of specific goods or services may be obtained from the grant officer. AID policies on source, origin, and nationality are contained in Chapters 4 and 5 of AID Handbook 1, Supplement B, (Procurement Policies).

(1) When the total procurement element during the life of this grant is valued at $250,000) or less, the following rules apply:

(i) All goods and services, the costs of which are to be reimbursed under this grant and which will be financed with U.S. dollars, shall be purchased in and shipped from only "Special Free World" countries (i.e., AID Geographic Code 935) in accordance with the following order of preference:

(A) The United States (AID Geographic Code 000),

(B) The Cooperating Country,

(C) Selected Free World countries (AID Geographic Code 941),

(D) Special Free World countries (AID Geographic Code 935).

(ii) Application of Order of Preference: When the grantee procures goods and services from other than U.S. sources, under the order of preference in paragraph (b)(1)(ii) above, the grantee shall document its files to justify each such instance. The documentation shall set forth the circumstances surrounding the procurement and shall be based on one or more of the following reasons, which will be set forth in the grantee's documentation:

(A) The procurement was of an emergency nature, which would not allow for the delay attendant to soliciting U.S. sources,

(B) The price differential for procurement from U.S. sources exceeded by 50 percent or more the delivered price from the non-U.S. source,

(C) Compelling local political considerations precluded consideration of U.S. sources,

(D) The goods or services were not available from U.S. sources, or

(E) Procurement of locally available goods and services, as opposed to procurement of U.S. goods and services, would best promote the objectives of the Foreign Assistance program under the grant.

(2) When the total procurement element exceeds $250,00, the following rule applies: Except as may be specifically approved or directed in advance by the grant officer, all goods and services, which will be reimbursed under this grant and financed with U.S. dollars, shall be procured in and shipped from the U.S. (Code 000) and from any other countries within the authorized geographic code as specified in the schedule of this grant.

Marine Insurance

The eligibility of marine insurance is determined by the country in which it is placed. Insurance is placed in a country if payment of the insurance premium is made to and the insurance policy is issued by an insurance company located in that country. Eligible countries for placement are governed by the authorized geographic code, except that if Code 941 is authorized, the Cooperating Country is also eligible. Section 604(d) of the Foreign Assistance Act requires that if a recipient country discriminates by statute, decree, rule, or practice with respect

135

to AID-financed procurement against any marine insurance company authorized to do business in the U.S., then any AID-financed commodity shipped to that country shall be insured against marine risk and the insurance shall be placed in the U.S. with a company or companies authorized to do marine insurance business in the U.S.

(a) Ocean and air transportation shall be in accordance with the applicable provisions contained within this grant.

(b) <u>Printed or Audio-Visual Teaching Materials:</u> If the effective use of printed or audio-visual teaching materials depends upon their being in the local language and if such materials are intended for technical assistance projects or activities financed by AID in whole or in part and if other funds including U.S. owned or U.S. controlled local currencies are not readily available to finance the procurement of such materials, local language versions may be procured from the following sources in order of preference:

(1) The United States (AID Geographic code 000),

(2) The Cooperating Country,

(3) Selected Free World countries (AID Geographic Code 941),

(4) Free World countries (AID Geographic Code 899)

<u>Special Restrictions on the Procurement of Construction or Engineering Services</u>

Section 604(g) of the Foreign Assistance Act provides that AID funds may not be used for "procurement of construction or engineering services from advanced developing countries, eligible under Geographic Code 941, which have attained a competitive capability in international markets for construction services or engineering services." In order to insure eligibility of a Code 941 contractor for construction or engineering se vices, the grantee shall obtain the grant officer's prior approval for any such contract.

136

Annex N

INDICATORS FOR MONITORING AND EVALUATION

ANNEX N **INDICATORS FOR MONITORING AND EVALUATION**

1. Strengthened Intermediate Institutions

Indicators	Measures
1.1 Longevity/Track Record/ Persistence over time	Minimum of 3-year performance record
1.2 Program and Absorptive Capacity	a) increase in number, type and reach of programs implemented (geographic reach, number of sub- grantees and community-based beneficiary organizations, types of projects).
	b) increase in grant funds successfully handled.
	c) wider vertical network of PVO subgrantees, horizontal network with other IIs.
	d) increase in staff and management capability
1.3 Organizational Growth and Adaptability	a) increased organizational level of specialization
	b) increased level of organizational resources.
	c) increased capacity to provide counterpart resources, and absorb contingent liabilities (This measures the willingness to engage and build partnerships with donors and subgrantees).
	d) increased in-house capacity to provide technical assistance to subgrantees.

-138

1.4 Balance of Sustainability Service Efforts	Less effort devoted to organizational viability concerns as against service to target beneficiaries.
1.5 Increased Institutional and Participative Decision Making as against Personal Decision-	More transparent, participative, consultative and institutionalized decisionmaking as againts making personalized and closed decision-making.
1.6 Measures of Inner - as against Externally-Driven Organizational Energy	More internally generated organizational energy -- leadership, motivation, resources, innovation -- as against externally acquired energy.
1.7 Reputation for Service, Stability, and Credibility	Wider and more positive professional and institutional reputation among donors, government agencies, and people in the Area of Operation.
1.8 Strategic Fit of Mission, Vision, Goal, Program, Processes, Structure, and Budget	More coherence in goals, purpose, structure, and resource allocation.

2. <u>Strengthened Subgrantees</u>

2.1 Formal registration and accreditation	Registration and Accreditation with government agencies and donor institutions are in themselves instrinsic tests of NGO subgrantee's organization and capability to implement project successfully.
2.2 Successful completion of a grant-project	The successful completion of a grant funded project usually indicates existing organizational capacity, but also constitutes a "coming of age" experience that spurs conscious institutional development and builds organizational confidence and efficacy.

2.3 Increased an Productive interaction with Local Government units	Number, type, and quality of collaborative projects and activities with LGUs.
2.4 Relationship with People's Organizations (POs)	Increased number of collaborative projects and activities with POs.
2.5 Increased Organizational Capability	Capacity to: a) undertake a sustained organizational development program. b) undertake project design, implementation, and evaluation. c) provide technical assistance to community-based beneficiary organization.
2.6 Increased level of Organizational Resources Capacity to	a) maintain full-time staff, office, and equipment. b) provide counterpart resources.
2.7 Balance of Sustainability and Service Efforts	Same as 1.4
2.8 Strategic Fit of Mission, Vision, Goal, Program, Processes, Structure, and Budget.	Same as 1.8

3. **Indicators of increased organized income generation and self-help capacity of community-based beneficiary organizations.**

3.1 Increase in organizational membership.

3.2 Increase in number of resources distributed.

3.3 Increase in credit repayment rate.

3.4 Use of the organization of collectivew decision-making outside of income-generation activities.

3.4 Use if the organization for collective decision-making outside of income-generation

140

activities.

3.5 Increase in participatory decision-making.

3.6 Increase of organizational and individual skills training.

3.7 Increase in mean levels of living of the members and their families.

3.8 Greater ability/capacity to work together as a group and undertake collective rather than individual projects.

4. Economic Indicators of Increased Income generation of Individual families

4.1 Increase in income and employment in the family.

4.2 Increase in health, education, and welfare expenditures of the family.

4.3 Increase in the level of living of women and children in the family.

4.4 Increase in access to external resources.

5. Social Indicators of increased self-help capacity of individual families

5.1 Increase in sense of efficacy and self-confidence.

5.2 Increase in participation on organizational or community decisionmaking.

5.3 Increase in time, effort, and resources devoted to skills development.

5.4 Increase in planning and evaluation/reflection on the welfare of the family.

5.5 Greater ability/capacity to work together as a group.

6. Networking for Disaster Mitigation and Preparedness

6.1 Presence of a working GO-NGO disaster coordinating network with a pro- active disaster mitigation and preparedness program.

6.2 Existence of a realistic, funded disaster response plan for the calamity area.

6.3 Conduct of a study of types, intensity, scope, and effects of probable and recurrent disasters in the area.

6.4 Conduct of joint GO-NGO beneficiary community training and simulation exercises in preparation of disasters.

6.5 Conduct of disaster planning for preparedness and mitigation among vulnerable communities.

6.6 Establishment of working linkages between local disaster response organizations with regional and national disaster organizations.

6.7 Stockpiling of equipment and resources required for disasters.

6.8 Setting up of communications and transportation facilities for disaster monitoring.

6.9 Adoption of disaster response objectives by GOs, NGOs and positive in frequently affected areas.

6.10 Conduct of a disaster preparedness campaign in the mass media and schools.

6.11 Periodic evaluation of disaster preparedness and mitigation goals, organization, processes, resources, and accomplishments.

7. **<u>Gender and Ethnic Group Fairness</u>**

Indicators of gender and ethnic-fair activities:

7.1 Equalization in the quantity and quality of project-generated opportunities provided to men and women/and various cultural and ethnic communities, such as in training employment, availment of credit, etc.

7.2 Increased awareness of continuing tradition-based biases against women and members of ethnic communities in the local setting and increased recognition of the need to redress this situation.

7.3 Re-examination of traditional and customary roles (expecially leadership of various types) and understanding of how they contribute to discrimination against women and ethnic communities.

7.4 Presence of distinct women and ethnic community development programs, projects, and sections in NGOs and government offices in the area.

7.5 Participation in the implementation of international, national, and regional women and ethnic community advancement programs.

7.6 Adoption of indicators of women's and ethnic communities' advancement in monitoring and evaluation of all program and project activities.

7.7 Practice of gender and ethnic community fairness within NGOs, POs, and government offices, especially in staffing and distribution of roles and benefits.

7.8 Increased media and public exposure of all women and ethnic communities' advancement in the programs of NGOs, PO, and GO, in the area.

7.9 Inter-organizational, multisectoral agreement to monitor one another's gender and ethnic communities' fairness programs by NGOs, POs, and GOs.

Annex O

SUB-PROJECT IDENTIFICATION, DESIGN AND IMPLEMENTATION

144

ANNEX O SUB-PROJECT IDENTIFICATION, DESIGN AND IMPLEMENTATION

1. Preparation and Submission of Proposals

The preparation and submission of sub-project proposals is the responsibility of the PVO.

OFFPVC provides a Project Proposal Handbook which is designed to help PVOs to develop proposals that will meet USAID guidelines. Part One of the Handbook provides an overview of the different sections of a subproject proposal as well as the guidance for the initial submission. The initial proposal should include sections covering the problem to be addressed, description of the subproject design (goal, purpose, inputs and outputs), intended beneficiaries and expected impact on beneficiaries, implementation plan, monitoring, baseline and evaluation plan, a comprehensive budget, and a listing of major assumptions. A summary of analyses (i.e., technical, social, financial, economic, administrative, and, if applicable, environmental) done or proposed to be done during subproject development should be presented. Links between the subproject and other community, provincial, national, PVO, USAID or other donor activities should be documented.

2. Review and Approval Process

The award of PVO Co-Financing grants is a competitive process in which PVO proposals must compete with each other for limited funding on the merits of their proposals and previous performance. The process, involving all major elements of the USAID, is coordinated by OFFPVC and proceeds as described below.

The PVO submits its subproject proposal simultaneously to USAID and the NEDA-Regional Development Office (RDO). The RDO, on receipt of the proposal, reviews it to make sure that any concerns raised by Regional Development Council (RDC) members are taken into account and to identify any weak areas in the proposal. The RDO may recommend improvements in the proposal. Written comments and recommendations will be forwarded to the PVO by the RDO within thirty working days after the receipt of the proposal. If comments are not received by the PVO within thirty days, it is assumed that the RDO finds no objection to the subproject proposal. The PVO is responsible for ensuring that the RDO's concerns are addressed in its proposal.

OFFPVC receives and disseminates acceptable PVO proposals to members of the USAID Project Review Committee for review and analysis. The Committee, composed of representatives from USAID technical and staff offices, meets several times a year.

All projects must comply with the following criteria:

145

a. in general accordance with GOP and USAID development objectives;

b. technically, administratively, financially, economically, socially and environmentally sound;

c. developmental rather than welfare-oriented; and

d. contain self-sustaining provisions for sustenance of project benefits after termination of USAID assistance.

However, all else being equal, higher priority is given to projects that, in addition to meeting the above criteria, also meet the following:

a. an activity where the PVO has demonstrated or can demonstrate a particular expertise or competence;

b. participatory, involving, to the extent possible, GOP, the beneficiaries, and local organizations in project design and implementation;

c. directed towards improvements in living conditions of the poor; and

d. encourage the participation of women.

The review process will take into account any comments or recommendations that have been received from NEDA regarding the subproject proposal.

The USAID Project Review Committee then submits the proposal, the issues identified during the review, and its recommendation to the USAID Mission Director for a decision of threshold approval or disapproval. Threshold approval means that USAID considers the proposal to have sufficient merit to justify further development. This determination does not guarantee funding, although it is expected that USAID will eventually fund most of the proposals given threshold approval.

If the Mission Director gives threshold approval, the PVO will then undertake to develop the proposal more fully and in a format acceptable to USAID. Part Two of the Project Proposal Handbook provides guidelines for detailed analyses of the project proposal, which should be completed after threshold approval has been given. USAID staff may also be made available, to the extent possible and needed, to help the PVO in this task. USAID staff usually make a site visit during this refinement period.

When the proposal has been refined, all required analyses have been completed and major issues have been resolved. OFFPVC prepares a PIO/T for clearance by appropriate offices and submission to the USAID Contract Services Division which drafts a grant agreement in accordance with AID Handbook No. 13, "Grants" (Chapter 4, "Specific Support Grants").

Prior to submission of the grant agreement to the Director for his final approval and signature, it is cleared by the following USAID offices: OFFPVC, DRM, OFM and CSO. The grant agreement may be signed by either the Mission Director or the USAID Contracting Officer within their respective authority to sign such agreements.

3. <u>The Grant Agreement</u>

The Grant Agreement is the document which provides a written understanding between the PVO and USAID as to the responsibilities and actions with respect to a given subproject. The agreement represents the results of the development and approval processes, previously discussed, establishes the framework of rules for implementation, and permits the formal start of implementation of the subproject. It reflects the commitments agreed upon by the parties to fulfill the stated goal, purpose(s) and methodologies of the project.

The Grant Agreement also obligates the United States (within the meaning of Section 1311 of the Supplemental Appropriation Act, 1955) to furnish up to a specified amount of assistance and clearly sets forth the terms and conditions under which such assistance is to be furnished, including undertakings or covenants made by the recipient PVO in respect to the subproject.

4. <u>Project Management</u>

a. **Overall Project Management**

OFFPVC will coordinate the management of staff of the PVO Co-Financing IV project. Other USAID technical and staff offices will provide administrative, technical and logistical services as needed to support project activities.

PSCs and institutional contracts will be used to the maximum extent as a means of enhancing USAID's ability to manage and maintain requid levels of accountability. IIs will be delegated maximum authority for the direct oversight and monitoring of their subgrantees as a means of minimizing direct USAID involvement and associated management burden.

As means of increasing the role of PVOs as facilitators rather than implementors, priority will be given to projects which link beneficiaries with established sources of assistance. In the case of income generating projects, these may be banks or other financial institutions; in the case of technical assistance projects, these may be government agencies, suppliers, or educational institutions.

USAID will continue to seek, develop and employ innovative techniques for remote management. Monitoring of subprojects by the RDOs is expected to continue to enhance effective management of subprojects.

PVO grantees will be directly responsible for managing all aspects of their subprojects. In the case of IIs, this will include the management of and the accountability for the activities of their subgrantees. All subproject grantees will be required to designate a project manager who is responsible for the direct management of their subproject.

PVO Project Managers and USAID Project Officers have the common goal of attaining project objectives and success. They do, however, represent different entities and have different assigned roles. It is therefore, important that their respective roles, responsibilities, functions, and interface with each other be clearly defined and understood.

b. Role of the PVO Project Manager

The PVO Project Manager is the appropriately designated official of the recipient PVO charged with overall management of a given AID-financed PVO grant. This principle is consistent with the "collaborative style" of U.S. economic assistance and the recognition that development itself is the responsibility of the Filipino people. The precise role of the PVO Project Manager is a matter determined largely by the PVO Grantee. Generally, the role assigned to the PVO Project Manager is to implement the project, supervise and make operational decisions. The extent ofthis role, including the level of responsibility, degree of supervision and latitude of decision making, varies from project to project and is limited only by the PVO Grantee itself and the parameters of the Grant Agreement.

c. Role of the USAID Project Officer

In contrast to the PVO Project Manager, the role of the USAID Project Officer has been established by the Chief of OFFPVC and is defined as that of the USAID monitor of the project and the facilitator of USAID actions required to support the project. The USAID Project Officer is the PVO grantee's primary contact with USAID and is reponsible for performing the following functions:

(1) Monitor all aspects of the grant: review quarterly progress reports and conduct on-site reviews in order to (a) assure USAID familiarity with the project, (b) ensure that progress towards project objectives is being attained in general accordance with the project implementation plan, and (c) ensure that the project is being implemented in compliance with the terms and provisions of the Grant Agreement.

(2) Maintain liaison with the PVO and provide general guidance

148

on AID requirements and procedures.

(3) Analyze PVO requests for quarterly cash advances to assure that (a) estimated requirements are reasonable to cover a 90-day period; (b) the projected use of the advance of funds is in accordance with approved budget of the Grant; and (c) the liquidation report for the penultimate quarter has been received and approved prior to issuance of any further cash advances.

(4) Analyze quarterly liquidation reports to assure that AID funds are being expended for authorized uses in accordance with the budget implementation plan and the terms and provisions of the Grant Agreement.

(5) Review vouchers, recommend their administrative approval to the Chief of OFFPVC, and facilitate their processing through USAID to assure timely payments to PVOs.

(6) Discuss with the PVO any problems which are identified in the monitoring process and assist with the resolution of problems of concern to USAID.

(7) Coordinate actions required to effect the issuance of grant amendments by working closely with the PVO, USAID Project Development Officers, the Chief of OFFPVC, and other USAID elements involved.

(8) Prepare project status reports and make recommendations to the chief of OFFPVC as are deemed necessary and appropriate; and

(9) Establish coordination linkage with NEDA especially in resolving conflicts and problems which arise from the implementation of the subprojects.

5. Subproject Close Out Procedures

Uniform closeout procedures will be applied to all PVO subproject grants. The term "close-out" refers to the process whereby USAID (1) determines whether the provisions of the Grant Agreement have been met and the activities contemplated by the grant Agreement have been completed satisfactorily and (2) determines the amount, if any, of the unreimbursed costs for which reimbursement is owed by USAID to the grantee and the amount, if any, of disallowed costs for which refund is owed by the grantee to USAID. Close-out procedures are as follows:

a. **Unreimbursed Costs:** Upon the written request of the grantee, USAID shall pay the grantee the amount, if any allowable, allocable and reasonable costs for which reimbursement has not previously been provided.

b. **Refund by Grantee:** Except as USAID may otherwise agree

149

in writing, immediately following the grant completion date, the grantee refunds to USAID the amount if any, of funds advanced or paid to the grantee by USAID that are not irrevocably committed to third parties for allowable, allocable and reasonable costs under the grant.

c. **Reports:** Within ninety (90) days after the grant completion date, the grantee submits to USAID all financial, evaluation and other reports required by this Grant Agreement.

d. **Grant-Financed Property:** The Grantee must account for any property received by the grantee from the U.S. Government or acquired with funds provided by USAID.

-150