

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 1981

PHILIPPINES

BEST AVAILABLE

**DEPARTMENT
OF
STATE**

January 1979



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Country Development Strategy Statement (CDSS)
for the U.S. AID Mission to the
Republic of the Philippines

USAID/Manila
January 29, 1979



EMBASSY OF THE
UNITED STATES OF AMERICA

Manila, Philippines

January 26, 1979

Honorable John J. Gilligan
Administrator
Agency for International Development
Washington, D. C. 20523

Dear Governor Gilligan:

I am pleased to transmit the USAID/Philippine Country Development Strategy Statement for the years 1981-1985. It represents, in my view, a pragmatic approach for our program, current and projected, in the areas of rural farm production and income, and provision of certain basic social services to the poor.

I note that your Overseas Appraisal Staff has recently described the Philippines as an "amber light" country. This, I understand, is in part because of various accusations that the Government of the Philippines condones human rights violations, including use of torture, manipulation of elections, etc. I believe you will find that this year's report by the Department on human rights in the Philippines indicates several areas in which improvements have been made during the past year. I am not writing you at this point, however, to debate one way or the other the human rights issue in the Philippines. I am writing out of concern that criticism regarding the GOP and its leadership could lead to program judgements which will penalize the poor majority in this country which our AID program seeks to assist.

The Philippines has serious problems of population growth rate and, as might be expected, concomitant problems of food production and nutrition. According to a United Nations report, the Philippines ranks number fifteen out of seventeen Asian nations in caloric deficiencies - it ranks behind India and only Bangladesh and Indonesia have more serious nutritional problems. The veneer of modern Manila too often masks serious

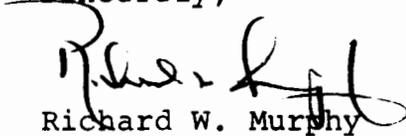
developmental deficiencies in the barrios and villages throughout this island nation.

Philippine authorities, including senior political leaders as well as technocrats at all levels, recognize the importance of a continuing U.S. development assistance program. They acknowledge that many of the accomplishments in agricultural technology, productivity increases and general rural development had their genesis in American aid.

I have a further concern. One result of the prolonged negotiations which recently concluded in the amendment of our Military Bases Agreement in the Philippines, was our undertaking to make a "best effort" with the U.S. Congress to secure \$200 million in Economic Support Funds (ESF) over the next five years. Throughout our negotiations we emphasized that provision of ESF was not linked to our regular development assistance program but would be supplemental. I would hope that AID Washington will continue to draw the very clear distinction which it urged be preserved during our negotiations on the bases between our regular AID programs and our provision of ESF.

Obviously the future course of our cooperation with the GOP in national development will depend on our ongoing review of overall GOP performance. The strategy which we forward herewith for your review acknowledges these considerations, while keeping clearly in sight the objective we have of supporting basic human needs development in the Philippines.

Sincerely,



Richard W. Murphy
Ambassador

Enclosure:

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January 26, 1979

PART I - U.S. ASSISTANCE STRATEGY

A. Basic Approach and Objectives

The USAID strategy in participating in the economic and social development of the Philippines during the five-year period 1981-85 has three major interrelated aspects. First of all, we intend to continue supporting Philippine Government (GOP) programs aimed at increasing the production and income of a well-defined group of low-income agricultural producers--the country's one and a half million small-scale rice and corn farmers--to enhance their role as a leading element in rural development and as a vehicle for rural equity programs. These farmers and their families constitute nearly one-third of the rural population. Their current average income is around \$60 per capita. In planning such support, we have attempted to assure ourselves that the GOP alone or with other donors will cover all of the other key assistance activities required for small farmer production and incomes to actually increase. We anticipate that the success of this effort will not only improve equity, but will also contribute to national food self-sufficiency and help to improve the nutritional status of the Philippines' growing population.

The second interrelated aspect of our strategy focuses on the important obstacles on the "social side" of the development equation. Here the biggest constraint is well-known and obvious--family size and rapid population growth. In this case we see our involvement as achieving significant results through aiding the GOP in its efforts to achieve close to national family planning coverage in the foreseeable future, in pursuit of its somewhat optimistic goal of replacement level fertility by the year 2000 without resort to abortion. As an added dimension to helping limit family size, we will also be participating in selected GOP nutrition and health-related activities designed to improve the quality of life for those children who are planned. Like population, the nutrition activities aim toward national coverage but are targeted on malnourished children and expectant mothers. Our health-related assistance activities will be basically demonstration efforts in rather extensive pilot areas.

The third and last interrelated aspect of our overall strategy has a specific "human rights" connotation and involves supporting programs which promote the decentralization of authority and encourage active participation by the beneficiaries of development programs in the design and implementation of those programs. This aspect will not involve many additional projects, rather it will relate mainly to projects that are currently underway or being negotiated, several of which will be extending into the 1981-85 time period. For the most part, these projects are the very ones that are being undertaken to enhance small farmer production and income and to achieve the social service objectives referred to above. We also plan to build on our past support for GOP programs that will increase the capacity of local officials and institutions (regional, provincial, city and municipal), to plan, finance and manage development programs.

There are other low-income groups and other constraints to development upon which we could have concentrated. These alternatives are discussed below. The strategy we did choose is one which we believe attacks high priority problems;

is susceptible of influence by us, i.e., we have demonstrated expertise in the areas it encompasses; is realistic in light of the resources we are likely to have available; is given high priority by the GOP as evidenced by the policy decisions they have taken or are in the process of taking; and represents the most effective bringing together and refinement of activities in which we are already participating, and a phasing out or not moving forward in areas of less promise or relevance. Lastly, we believe it is a strategy that will have favorable implications for overall development well in excess of the relatively modest level of resources that we can bring to bear. We also believe that this is a strategy amenable to measurement. Hence, progress and achievement can be assessed (see Section II.B.2).

There are selected other activities outside of the major areas of program concentration, to which we are giving some support, that are less closely related to our strategy. An important one in terms of development constraints deals with nonconventional energy, a second is our assistance to the GOP's Economic and Social Impact/Women in Development analysis effort. Our support for a Housing Investment Guarantee for a sites and services program may be possible, and there are regional and centrally-funded activities of significance individually, but which in most cases are not integral to our "core" strategy. Now that the military bases agreement has been signed, though subject to U.S. ratification and fund appropriations, there presumably will be additional resources available for use in our support efforts which could lead to our involvement in additional areas of concern. By agreement, these are not discussed in this paper but will be the subject of a future one.

B. Areas of Proposed Major USAID Concern and Support

1. Increasing small farmer productivity and income

Outside Manila, agriculture forms the basis of the Philippine economy. Combined with fisheries and forestry, agriculture accounts for approximately 30 per cent of Net Domestic Product, 60 per cent of the country's export earnings, and over 50 per cent of its labor force employment. Expenditures on food constitute some 57 per cent of total household expenditures.

Agricultural conditions vary widely throughout the Philippines. This is due to complex topographic and climatic patterns and the fragmentation of the country's land area into numerous islands. The transport and distribution of agricultural inputs and products is rendered expensive and difficult as a result of these factors. They have led to the uneven placement of public and private investments, considerable regional variations in both factor proportions and in the composition of agricultural production, and to wide regional income disparities.

Most of the farms in the Philippines are small and are characterized by yields that are still low relative to other Asian nations, in spite of recent heavy investments in irrigation facilities and other support systems. Some 2.0 million, or 85 per cent of the country's estimated 2.4 million total farm units, are less than 5 hectares in size. Approximately 1.5 million farm units, or roughly two-thirds, produce primarily rice or corn, the nation's

major food crops. Coconut, sugar and garden crops account for an additional 21 per cent of the total number of farm units.

These 2.0 million small farm families comprise about one-third of the nation's total population, and have an average net family income of about \$350 per annum or about \$60 per capita. Roughly a third of all small farmers still operate under tenancy arrangements. Of these, some three-fourths are rice and corn farmers. Nearly 60 per cent are eligible to become amortizing owners.

Since 1972, the government has been giving more emphasis to upgrading the role of the small farmer as part of its efforts to gain and maintain food self-sufficiency, to sustain rural employment, and achieve balanced and equitable growth. The GOP's efforts have included an extensive land reform program for tenanted rice and corn lands, transferring ownership to tenants on landholdings over 7 hectares; the expansion of agricultural extension services; the development and spread of improved high-yielding, quick-maturing rice varieties; the introduction of multiple-cropping systems; improved flood control facilities; expanded use of fertilizer and pesticides; greater access to credit; and improved milling and storage facilities. Irrigated rice land area has been expanded by roughly 60 per cent since 1972, and the GOP is planning to double the 1.1 million hectares presently irrigated by 1987, thus covering nearly all potentially irrigable rice lands.

AID support to date has also been focused on the small farmer, and has been directed mainly at overcoming the major constraints to improving production and marketing technologies, and to strengthening the institutions needed to disseminate these improved technologies. We have also contributed to GOP efforts to provide the various other supporting services needed to sustain small farmer operations, to help transform a backward sector into a modern and productive one.

To meet the projected effective domestic demand for food and to improve nutritional standards, increases in agricultural output, including forestry and fisheries, will need to average about 5.3 per cent annually over the next decade, slightly higher than the 5.0 per cent growth recorded over the past five years. Future increases in production will have to come primarily from increased yields through more intensive land use. While there are still some areas of unused cultivable land in the Philippines, arable areas are unlikely to expand more than one per cent a year. Thus, productivity gains will need to account for roughly four-fifths of total production increases in future years. To achieve greater productivity will require the simultaneous development of improved location-specific production technologies, expanded irrigation systems, and improved supporting services. The GOP's strategy for achieving these objectives is set forth in the Five-Year Plan for 1978-82, and is summarized in Annex C.

Our future participation will be aimed at helping the GOP in its efforts to overcome the chief constraints to raising small farm output and incomes. Toward this end, we plan to contribute to the government's efforts to

expand and decentralize its agricultural research and crop protection programs, so as to bring the benefits of these programs within the reach of the small farmer. In addition, we will assist in improving the extension and non-formal education capabilities of selected rural agricultural colleges, through programs designed to serve farmers and farm youth. We will also contribute to the expanded development of small farmer support systems, which will be designed to incorporate the more promising techniques developed through the research and crop protection efforts, and which where appropriate will accompany the construction of additional small-scale irrigation facilities and the application of improved water management practices. To ensure that the increased production results in higher farm incomes, we will continue assisting in the construction of farm-to-market roads and in strengthening small farmer marketing cooperatives. Such collective organizations enable small farmers to participate more fully in the development process, and also allow them to compete more favorably in gaining access to credit, production inputs, and technological innovations. It will also give them greater influence vis-a-vis government price policies. If farm output and income are to be raised, then any overall strategy must ensure that no constraints are left unattended. AID need not, of course, be involved in all aspects but we do intend to make sure that all of the important factors are considered.

We expect that our aid to low-income rice and corn farmers will enable them not only to increase their production and incomes, but also their families' welfare. Through our support for improvements in the rural road system and by facilitating increased access to rural markets, we anticipate that other elements of the rural poor, including in particular landless workers and artisan fishermen, will also benefit through lower market prices for food and improved nutrition. Indeed, one of the main purposes of our efforts to increase small farmer production is to provide the means for improving the nutritional status of the poorer sectors of the population, of whom small farmers and their families, constitute a large segment, by increasing basic food supplies and improving their equitable distribution. The nutrition element of our overall strategy is discussed more fully below. The new or improved farm technologies and systems to be introduced or expanded are designed to be more labor-intensive, and thus will also have some, albeit limited impact on the growing problem of the landless poor.

As this initial emphasis on small-scale rice and corn farmers succeeds in increasing rice and corn supplies sufficiently to maintain the availability of these commodities at reasonable prices, we plan to increase our support to GOP efforts to raise the incomes of the more marginal rice and corn farmers, by helping them to diversify their productive activities into other higher value commodities.

2. Helping to slow the rapid population growth while contributing to improved nutritional and health status

The gains of increased food production and farmer income will, however, be largely dissipated if the current rapid growth of the population

continues. The population of the Philippines, now about 46 million people, has averaged annual growth of around 3 per cent during the past decade, has doubled within the past 24 years, and will double again in the next 27 years at the present rate of growth. It could conceivably register an increase of almost twenty times within the Twentieth Century.

Such rapid growth not only obviates potential gains to per capita food production and incomes, it also adds heavily to the society's burden of providing adequate education, health services, shelter, and gainful employment opportunities. Given the present high rate of growth, simply maintaining the level of per capita income and social services is a tremendous accomplishment.

The chief constraint to reducing the population growth rate and with it family size, is a widespread lack of access to effective family planning methods, particularly in the country's rural areas coupled with ignorance of the fact that there are ways to limit family size. When the GOP initiated a family planning program in the late 1960's, a town-based clinic approach was adopted. This led to rapid increases in the number of acceptors in the vicinity of the clinics, but did not adequately serve the majority of the rural population who live in small villages or in the countryside where fertility rates are higher.

In 1976, the GOP changed its approach and in addition to maintaining the clinic-based program, began establishing a nationwide outreach network to accelerate the spread of family planning programs to the rural population. Under this program, village resupply points are being established, and full-time outreach workers are being trained and incorporated into the distribution network at the barangay level. Neighborhood distribution points are also being established and manned by volunteer workers. Voluntary sterilization services, for which there is a growing demand in the Philippines, are being made available more widely through participating hospitals, clinics, and itinerant service teams. Essential elements are the increased involvement of local authorities, including their taking on added financial responsibility and the enlistment of neighborhood volunteer workers. Not only are the services being made available but information is being provided to use them.

By implementing the strategy of nationwide coverage through an expanded outreach program and by promoting the use of more effective and lasting methods of contraception, the GOP expects to lower the Philippines annual population growth rate from the 2.6 per cent estimated at present, to 2.3 per cent by 1982 and to 2.1 per cent by 1987. The government has also recently included in its current long-term plans the goal of replacement level fertility by the year 2000. This would result in a population at that point of about 70 million, a sizeable reduction over the 100 million that some experts had been projecting as recently as 1974. In order to achieve these goals, it is estimated that it will be necessary for the GOP to increase the country's overall contraceptive prevalence rate (CPR), from 26 per cent at present to 40 per cent by 1982 and 50 per cent by 1987. In order to reach the goal of replacement level fertility by the year 2000 (1.1 per cent population growth rate), the CPR will need to reach 70 per cent. We and the GOP recognize that these goals are optimistically ambitious for a developing country that does not include abortion among its approved methods of contraception, but consider them appropriate if only to spur more progress in this important area.

AID played a major role in the mid-1970's in inducing the GOP to augment its family planning strategy by adding a rural outreach component. We plan to focus our efforts over the next 5-6 years on assisting in the successful implementation of this recently-added component. Outreach is a labor-intensive effort where the funding requirements are comparatively modest and the training needs high, but the returns to inputs considerable. It cannot be over-emphasized, however, that the essential element in the successful implementation of the GOP's current strategy is the nationwide coverage. There are constraints to achieving such coverage, and while removing them is primarily the GOP's task, we along with the IBRD and UNFPA and various private agencies, can be of considerable assistance.

In supporting the GOP's efforts to make its family planning program more effective, we will place heavy emphasis on the promotion of several of the more effective contraceptive methods, including voluntary (and low-cost) sterilization, the pill, and the IUD. We will also continue to encourage the development and spread of motivational techniques that are designed to inform potential users more fully about the benefits of family planning, and to educate them regarding possible side effects. We have become aware that ignorance about the potential benefits and unfounded rumor regarding possible side effects has dissuaded some couples from adopting family planning methods and others from continuing their use.

Our concentration on family planning and welfare in the coming years will not only be confined to limiting births, though this will be the primary focus in view of its high-return potential. We will also address the needs and well-being of those children who are born or who are about to be born. This includes assuring them improved nutrition, increased access to health services, better sanitation, a clean potable water supply and a practical education. Our support for activities in these areas will, however, be of a more targeted nature. Participation in this area will improve the credibility of our efforts in population.

Malnutrition is widespread in the Philippines, especially among the rural population. The problem can be viewed in general terms, as deriving from the maldistribution of available food supplies--it is also a family-oriented problem. In addressing the requirements for increasing small farm rice and corn production, we will continue to work with the GOP toward the establishment of stronger and more direct linkages between the country's food production and its food distribution and nutrition programs. As indicated above, we see our support for rural road construction and increased market access as constituting the kind of linkages we can help to construct. Such facilities help to lower the cost of both farm inputs and food marketing and keep the prices of basic foods like rice and corn within the reach of low-income rural consumers.

From the perspective of the individual low-income family, the main nutritional problem is insufficient food intake or lack of calories. This is caused by several factors, including inadequate income to buy food, maldistribution among family members of the limited food available, and inadequate knowledge of good nutrition practices. Inadequate health services

and poor water also contribute by compounding the effects of infectious diseases upon the undernourished.

In family terms, malnutrition impacts most heavily upon the most vulnerable, i.e., the young children, particularly when there are many per family. There are currently 550,000 seriously malnourished pre-school children (5.8% prevalence); 2.3 million moderately malnourished (24.8% prevalence); 1.5 million undernourished elementary school children (14% prevalence), and 1.2 million undernourished mothers of reproductive age.

The GOP has recognized the problem, identified its resolution as a national priority, and has established a National Nutrition Council to formulate strategies, policies and programs involving all relevant agencies, to deal with it. The National Nutrition Council has, in turn, already established a rural outreach network, and has induced virtually all of the country's municipal mayors to formulate nutrition programs. Through this network, the GOP expects to be able to reach at least 80 per cent of the families with malnourished children with some kind of assistance. Between 20-40 per cent of them are to be given supplemental foods; and all of them are to receive education in nutrition, home food production, health and sanitation, and family planning techniques.

AID assistance to this nutrition strategy has heretofore been geared primarily to trying to generate a national awareness of the magnitude of the problem and to help in the development of an effective set of policies and programs to cope with it. Also, we have in recent years donated an average of 45,000 MT per year of PL 480 foods to supplement the GOP resources provided for family and child feeding programs. Our future strategy, however, will be directed towards reducing the program's dependence on donated foods, by aiding in the initiation of community-based schemes to grow and distribute the supplemental foods needed under the national program. In pursuing this strategy, we plan to continue to utilize PL 480 Title II foods during the 1981-85 planning period as initial inputs into programs designed to generate increased local contributions. The outreach effort will continue to rely heavily upon voluntary village workers and will be funded mainly from GOP resources.

Unlike population and nutrition, where we are planning to continue supporting nationwide programs directed toward targeted beneficiaries, our support for health care programs will be limited to one or two regional demonstration efforts that are directly related to the GOP's planned expansion of primary health care facilities over the period 1978-82.

There are several reasons why we are limiting our support in this area. For one, the GOP already has an extensive health services delivery system, established with IBRD support, that reaches down to the barangay level. Secondly, there is at present a surplus of trained nurses in the Philippines in terms of available positions, and the country is a net exporter of other medical talent, including doctors. Despite this, many of the rural clinics are not adequately staffed and lack sufficient medical supplies and appropriate equipment. These are problems which the GOP should be able to manage from its own resources, however, with some assistance from other donors.

The GOP is trying to redirect some of the country's surplus medical talent towards rural service but it has not been very successful to date due to the limited salaries it can offer. The government has already instituted the practice of requiring doctors and nurses to perform rural service for a six-month period following their graduation from training, but this requirement is readily circumvented.

Our proposed focus in the health area will center on demonstrating the feasibility of getting primary health care extended to the rural poor. The present clinic-based health system is static and cure-oriented, and we propose to help the GOP in demonstrating that this same system could better serve the needs of the rural poor, if it were used more rationally and its operations shifted to preventive practices with local participation. This shift in emphasis would necessarily involve the expanded use of paid barangay health workers, and would require more direct linkages with the family planning and nutrition outreach systems to keep the cost of such operations within manageable limits. We anticipate that our initiatives in this regard will be sustained and replicated through follow-on support from the IBRD and other donors and we will be designing our assistance projects accordingly.

A key constraint to improving health in the Philippines is the lack of good sanitation facilities and clean, safe water supplies. As noted, only one-third of total households have sanitary toilet facilities, only 43 per cent have a satisfactory water supply. Most of these households are located in the cities. Without better sanitation and improved water supplies, the government's efforts to improve health and nutrition will likely be less than successful.

There is insufficient awareness in the Philippines of the need to create and sustain a comprehensive approach to health maintenance, i.e., proper diet, clean drinking water, adequate sanitation and preventive health care. Our current efforts are therefore directed towards conveying the importance of this approach as it should and can be applied in low-income rural areas. Our expected resource levels will not permit us to go much beyond a continuation or modest expansion of demonstration efforts, but we are anticipating that other sources of domestic and foreign donor support will emerge once the feasibility has been demonstrated.

3. Broadening the base of local participation in development

This third aspect of our strategy does not so much involve the commitment of additional resources to new projects, as it does applying to current and future support efforts in agriculture, population, health and nutrition, an emphasis or approach to designing and implementing development projects that has emerged from our experience with the Provincial Development (PDAP) and Bicol Regional Development programs. This aspect could as well be labelled a tactic except that we consider it to be crucial to the success of our development assistance efforts in the Philippines, and it has therefore taken on strategic importance.

The successful implementation of rural development programs depends largely upon the manner in which such programs are designed and implemented and also upon who becomes involved in the process. Experience shows that there are essentially two alternative strategies for carrying out these tasks. The first relies almost exclusively on a centrally-based program development and design effort, while the second seeks a sharing of these functions between central agencies and local organizations.

By far the more prevalent choice among developing countries lies with the centrally-based approach. It is consistent with the structure of the unitary governments normally found in these countries and with the corresponding concentrations of administrative authority, political power, and available human and fiscal resources at the center. But the usual result, particularly over the long haul, is an alienation of the people being served, creation of local dependency, and wasted resources. In these terms, the second alternative, i.e., the "sharing" of central and local leadership, is clearly the desired strategy, one that AID has promoted with the GOP for the past five years. As a concept, it is as well the mainstay of our support for the future.

But the adoption of the "shared" strategy is by no means its own panacea. Local organizations, public and private, often lack a genuine capacity to design and manage local projects and are frequently bereft of technical and fiscal resources. The lack of local capacity, which is usually the result of decades of neglect through a carefully nurtured reliance on the central government, in turn, leads to discontent with local government as an advocate for the rural poor. The dilemma thus becomes joined: local involvement is a critical prerequisite to serving the needs of the poor but local capacity has come up short because of prolonged central domination. In many countries the dilemma worsens into an almost unbreakable, self-perpetuating circle of cause and effect. The Philippines, however, possesses offsetting characteristics to the circular trap, making the "shared strategy" feasible. It has, for example, a structure of local institutions that has been involved, especially in the political arena, in national decision making. However much the local political set may have abused its responsibilities in the past, the fact of its existence and its effective though sporadically-used power sets the Philippines apart from many developing countries. Moreover, by comparison, the Philippines has technical resources available in the way of trained administrators, managers, technicians and engineers. And, surprisingly, these become available at the local level, especially as efforts are made to build local capacity on the basis of genuine project concepts. We have noted from our past involvement in projects related to the establishment of water supply districts, small-scale irrigator associations, rural electric cooperatives, and nutrition and population outreach clinics, that the poor have, in fact, had some success in penetrating the local power structure and that a genuine concern for the status of the poor does exist among the various local government units participating in these efforts.

This "shared" strategy will be implemented in the 1981-85 period mainly with projects already on stream. Our proposed continuation of rural roads construction, health services and barangay water supply projects, where the basic choices, design and operation remain in the local organization, are

typical of projects which foster this strategy. Our assistance towards the development of rural service centers will continue the successful PDAP approach, though it will be concentrated on the conditions of the poor in market towns. At the same time encouragement of more direct participation will continue through our support of credit and marketing cooperatives, barangay health associations, and small-farmer irrigation associations.

4. Other assistance

The sections above describe our proposed "three-pronged" core strategy for working with the GOP over the next several years. To recapitulate, the strategy will involve two main areas of project concentration, and a third area which is primarily one of emphasis, relating to the participation of the beneficiaries of these projects in their design and implementation. In addition, we expect that a small proportion of our resource allocations will fall outside of this core, being directed instead to certain other priority efforts which are of special interest to AID, or which are broadly supportive of the GOP's development efforts.

a. Non-conventional energy research

We expect that roughly 4-5 per cent of our total projected Development Assistance funding will be applied to research in non-conventional energy over the five-year period, 1981-85. Having played a major role in the development of a highly successful rural electrification program in the Philippines and having passed the foreign support of that effort to the IBRD, Japan and others, we are now involved in this new pioneering effort in the energy field, the need for which is obvious and urgent. As indicated in the Part II analysis, the Philippines is seriously lacking in conventional domestic energy resources. Crude oil imports presently amount to over \$1 billion, constitute about one-quarter of total imports, and are roughly equivalent to the country's current trade deficit.

The lack of domestic energy sources impacts on the rural poor in basically two ways. It impedes the extension of electric service to low-income areas, and it places an added burden on the rural sector by requiring that steadily increasing agricultural surpluses be produced for export to earn the foreign exchange needed to pay for the energy imports. These foreign exchange earnings are thereby diverted from being used to finance possible rural development activities. There are also persistent inflationary effects which translate into higher prices for basic goods, a development that is especially burdensome to the poor and increases the maldistribution of income. In order to help alleviate this constraint, USAID will be giving support to GOP non-conventional energy research, an area where we have special expertise and have the potential to make a significant contribution.

b. Economic and social impact analysis

As a reflection of its interest in achieving the growth and equity goals of its development strategy, the GOP in 1975 requested AID assistance in developing better measures of the progress and impact of its various

development projects. We agreed as to the usefulness of such measures, both for the GOP and ourselves, and have since been working jointly in this area. The development of better measures will enhance the GOP's ability to allocate its development resources more effectively. It will also provide a more effective means to measure the impact of development programs and related foreign assistance efforts, and will enable the government to assess the potential for increasing the role of women in all major areas of the development process. While our involvement is presently not expected to extend beyond 1983, we would be inclined to extend such assistance if necessary, and if requested by the GOP, because of the considerable potential benefits of this undertaking to Philippine planners and program managers, as well as the foreign donors.

c. A housing investment guarantee program

Our concentration on support activities that relate directly to the rural poor effectively precludes the allocation of any significant portion of our Development Assistance resources to urban-related activities, such as sites and services for low-income housing. Nevertheless, we recognize that there is a need for extensive low-income housing construction in almost every urban center in the Philippines, a need which stems largely from the continued migration of landless rural poor in search of jobs. This is a growing problem in almost every developing country in the world, and in recognition thereof, the Agency has a special instrument available to meet the problem, i.e., the Housing Investment Guarantee. Although such a program would fall outside the province of our present areas of major concern, we would plan, if the GOP so requests, to use it as a forerunner to, or as part of the bases compensation package.

d. Centrally or regionally-funded projects

We have knowledge of 67 central or regionally-funded projects of varying relation to the USAID program in the Philippines. Their annual cost as applicable to the Philippines is not known to us. The USAID's approach is to encourage those projects that support the USAID strategy, and to discourage others. This approach, however, has only been partially successful to date.

C. Alternative Approaches Considered

Given the magnitude of the country's need for assistance, the broad range of areas where such assistance is needed, and the comparatively modest level of available AID resources, consideration was given to a number of alternative strategies for benefitting the low-income elements of the rural population.

One alternative would involve focusing on programs designed to raise the income and productivity of low-income farm workers other than those engaged in rice and corn production, i.e., sugar and coconut workers, who constitute approximately one-fifth of total farm workers and a large proportion of the country's landless rural poor. These groups are less cohesive than rice and corn farmers, however, and would be harder to reach with effective programs. Moreover, sugar and coconut products are major export crops for the Philippines and employment and earnings levels are largely a function of world market prices

and profit margins. The fact that these are export products gives extra political sensitivity to external involvement that might be interpreted as serving U.S. interests, e.g., by maintaining low prices. Conversely, programs that were focussed on raising farmer incomes could be viewed as a threat to the competitiveness of these products in international markets.

The landless poor are certainly a growing problem in the Philippines. A key element to solving this problem, however, may be the promotion of geographically-dispersed, small-scale industries as discussed below. Changes in government wage policies would also be an effective route. Expanding the country's land tenure reform program is another policy option, and also another highly sensitive political area. Considering our limited resources, however, it is highly doubtful that we could exert sufficient leverage to get the policy changes or reforms needed to bring about substantial improvement, outside of the rice and corn areas where we have been working. A Mission attempt to launch a project that would directly benefit low-income fishermen was delayed by recent AID/W action deleting funding for the project in the FY 1980 Congressional Presentation. An initiative to assist swidden farmers is proceeding on a reduced scale for the same reason.

A second alternative strategy relates to assisting in the development of labor-intensive small and medium industries (SMI) in low-income rural areas. The principal objectives would be the creation of off-farm employment opportunities for the growing surplus of rural workers, an essential development task. A secondary objective would be to create a basis for increasing foreign exchange earnings from non-traditional exports. The 1974 (ILO) Report highlights the need for such an effort as an important element in its recommended long-term development strategy for the Philippines. The GOP Development Plan for 1978-82 projects the creation of an additional 250,000 new industrial jobs during the 5-year period; although it does not specify the prospective sources of these jobs. As shown in Annex D, both the IBRD and the ADB are already providing assistance in this area through Philippine development banking institutions. While our knowledge of the general area indicates that further assistance could be effectively absorbed, we believe that AID involvement is not warranted primarily because of the other donor involvement. Secondly, AID is presently doing an effective job in the small-scale agricultural area where job creation is also a concern, and we should stay with what we can do well. Further, even if we did have the necessary skills, the task of assisting in SMI development would be complicated by the considerable comparative advantages that the Manila area enjoys as a site for industrial location. The GOP has thus far been unable to construct an adequate set of incentives to offset Manila's locational advantages. For this reason, a proposed AID loan for agribusiness development was recently dropped.

A third alternative strategy considered by the Mission would involve concentrating our efforts solely on basic human needs programs, such as family planning, nutrition outreach, health care delivery, non-formal education and potable water supply systems. Except for non-formal education, these are all areas where we currently have activities underway, and where wide-scale replication is needed. They are also areas where support can readily be focussed

directly on the rural poor, and where the beneficiaries can readily become active participants in the design and implementation of the support programs. Sole concentration on BHN areas would, however, leave uncovered the financial side of our rural assistance efforts and overlook the GOP (and Asia Bureau) goal of food self-sufficiency. In its development plans, the GOP clearly acknowledges the need for expanded BHN programs, it outlines the programs that need to be undertaken and provides for support from national budgetary resources, but it places the major burden of financing these programs primarily on local level organizations, public and private. As noted earlier, the lack of local finance is a major constraint impeding the spread of BHN services to rural residents, and one that needs to be overcome if the reach of such services is to be broadened. We believe that our support for increased small-farmer productivity and income, and related infrastructure, will contribute to an expanded rural tax base and thereby help to ease this financial constraint. In fact, additional efforts on our part to help improve the rural tax system as part of an overall effort to help broaden the base of local participation, also appear warranted. As indicated, we are combining this kind of effort with our population, nutrition and other selected BHN activities.

A fourth alternative strategy relates to the country's need to conserve and more effectively exploit its limited natural resources, in particular its arable land, forests, fisheries, energy and water resources. There is a growing awareness in the Philippines of the need to rationalize the use of such resources, in view of the growing population, rapid denudation of the forests, increasing foreign costs of energy imports, and perennial crop losses due to poor agricultural practices and flooding. AID could effectively support and enhance these efforts by providing technical and other kinds of assistance to specific areas of need. We are doing this now in a limited way with respect to the development of non-conventional energy sources, as a by-product of building irrigation and flood control structures, and in conjunction with a comparatively modest agro-forestation program being developed to aid small upland farmers. We could do much more.

Rendering effective assistance in the resource areas would, however, require considerably greater financial and technical resources than we expect will be made available and therefore we regard these areas as more eligible for other donor aid. There are also political factors and sensitivities that would be difficult to deal with. Many of the areas of greater resource exploitation, particularly the remaining forested areas, are controlled by vested interests. In the case of agro-forestation, viable models of organization and technology that could be applied to the massive areas that need to be replanted have yet to be developed. Further, we believe that the task of ensuring adequate future supplies of basic resources rests with the Government itself, which should in our judgment accelerate the implementation of effective conservation programs. We do not believe, however, that the government is as yet adequately committed to carrying out such programs, except in the energy area. This lack of commitment could, of itself, undercut any efforts on our part to be helpful. Such efforts as we do make will be confined to improving conservation practices in the areas occupied by poor upland farmers.

A draft report prepared in December 1978 by a two-man team from the Operations Appraisal Staff of PPC contains two additional suggested alternative assistance strategies. The first would involve a shift in emphasis to large-scale BHN-oriented projects and away from small, innovative schemes. This approach was discussed with members of the team during their brief visit to the Mission in September 1978. Except for the large-scale aspect, it is comparable to the third alternative strategy considered by the Mission as cited above. We have rejected it for the reasons given there, and also because we believe that the large-scale approach to implementing BHN programs is not a very realistic one. As noted elsewhere in the OAS report, these programs are labor-intensive because they involve changes in deeply-imbedded attitudes and long-standing mores. Simply training a person to dispense contraceptive pills or nutrition pamphlets is not the answer to the problem of rapid population growth or poor nutrition, as we have discovered in the Philippines. The answer lies in the establishment of well-managed and effective outreach systems and these take considerable time and effort to develop and to put into operation. Our emphasis on maximizing local participation in these programs is an additional element requiring special attention. Further, we have found that the design of BHN programs need to be location-specific because of the variety of economic, social, governmental and cultural factors that bear on such programs. Too large an effort, even a replicated one, may not in practice be nearly as feasible or as beneficial as several smaller ones.

The second approach recommended for consideration by the OAS team would involve giving priority to supporting BHN activities in several of the poorer regions of the Philippines, i.e., the Bicol, and the Visayas. This approach would also involve linking AID support to GOP funding for development activities in these poorer regions relative to total development outlays. The chief problem with this approach is that it would limit AID's flexibility in carrying out effective programs. The problems of malnutrition, poor health and oversized families are widespread throughout the rural areas of the Philippines and not limited to a few regions. We believe that the most effective way to help solve these problems is through broad and direct assistance to the prospective beneficiary groups. We do intend, however, to work with and through the Regional Development Councils, where appropriate, to help achieve better local-level coordination and integration in the planning and implementation of development programs and projects.

D. Relation of the Strategy to the On-going Project Program

In devising a strategy for the utilization of AID resources, no ongoing Mission starts with a clean slate. There are projects in process and there are upcoming projects well down the negotiating path and there are the various special interests emanating from Washington to be taken into account.

The strategy outlined in this paper has been evolving over a number of years, certainly since 1973, in response to directives received from AID/W as well as on the basis of the Mission's continuing assessment of local conditions, priority needs, and possibilities for effective assistance. The Mission's

assistance programs during this period have varied in their expansiveness depending upon our perceptions of what is needed and what can be effectively carried out, but also in relation to our expectations as to the levels of resources that are likely to be forthcoming, which experience has shown, have usually been a function of the GOP's standing in the eyes of the allocators. In short, our program planning process has been a realistic and pragmatic one. Accordingly, whereas PIDs for 18 new projects were forwarded in 1977, only 4 were submitted in 1978, and 2 of these were for follow-on projects. Notwithstanding the varied level of activity, the core of our assistance strategy has remained essentially intact, though not articulated in exactly the same way as it is stated herein.

In shaping this presentation, and in proposing levels of assistance for the five-year period 1981-85, we have necessarily taken as our starting point, the structure and character of our current program, including projects presently being negotiated. In pursuing our strategy into the future, we intend to continue our past practice of reworking the current program as necessary to ensure that it conforms to the strategy, rather than vice versa. As in the past, this will likely entail altering the scope of existing projects, shaping their successors, and eliminating any new proposals that do not appear to be appropriate to our areas of concern, or that may not relate to areas of special interest. In pursuing this approach, however, we do not propose to lose sight of the fact that there is a constant interplay between strategic and program interests. Both are constantly evolving, often in response to different sets of changing conditions. And while it is necessary to continuously shape a program to ensure that it conforms to a prescribed strategy, we foresee occasions when the strategy itself may be in need of adjustment, depending upon a variety of factors including which projects are working successfully and which are not.

E. Resource Requirements and Program Implications

It is expected that our assistance will be needed and can be readily absorbed in the areas of concern cited above, at approximately the same level of inputs as at present, allowing for inflation, until at least the mid-1980's. While this level will preclude us from funding some of the bigger projects, it should be sufficient to permit us to do what we can do well, and enable us to maintain a friendly bilateral relationship with the Philippines.

Any significant reduction in the present level would effectively eliminate us from the ranks of major donors since Japan, the only other major bilateral donor at present, appears inclined to increase its contribution over time in absolute as well as relative terms. Moreover, any appreciable reduction in either the DA or PL 480 programs at this time, would likely be viewed by the GOP as an attempt to unfairly compensate for the Economic Support Funds to be provided under the recently-signed bases agreement.

The programmatic implications of the strategy outlined above are significant. By the end of FY 1983, 29 of the Mission's 31 presently active projects will have ended, providing us with an opportunity to more tightly focus our assistance efforts. We anticipate this will involve the generation of an

average 3-4 new project starts per year through 1985. Projects begun during the planning period will, however, be less personnel-intensive and, as feasible and appropriate, will be more closely coordinated with the Peace Corps.

In order to retain incentives for new initiatives within the Mission core strategy, at least one new start per year will be reserved for a "pilot" activity to test new methodologies in service delivery, or to experiment with new production techniques contributing directly to increasing small farm income. These may be started either utilizing Title I peso resources and followed up with dollar funding, provided feasibility is demonstrated, or initiated with dollar funding at the outset. We also plan to use PVO's in this process.

F. The Relation of our Assistance Efforts to the Country's Overall Development Strategy and Constraints

In addition to contributing to higher rural living standards, the programs that we propose to support will be related directly to key elements of the GOP's own overall development strategy and its long-term plan for development, both of which are discussed in some detail in Part II below, and in Annexes B and C. The particular developmental constraints on which we will be focussing our efforts are among those that have been identified by the GOP as constituting major obstacles to improving the conditions of the rural poor. Thus, there are specific and direct linkages between our assistance to small rice and corn farmers, and the GOP's strategy of emphasizing labor-intensive agriculture; between our support for the extension of family planning, nutrition and health services, and the GOP's programs in these areas; and between our efforts to promote greater participation by the rural poor in the development process, and the GOP's efforts to decentralize its administrative functions and to strengthen its ties with local institutions and agencies.

PART II - ANALYSIS

A. The Country's Current Economic and Social Situation

The Philippines is presently undergoing gradual but pronounced economic, political and social change. It is in the midst of a prolonged religious insurrection and at the same time, a political experiment. As a nation, it is relatively new to self-government and is still seeking a cultural identity. Located off the southeastern rim of Asia, it represents a target of opportunity for three major powers and a base of operations for a fourth. As an agricultural-based economy that is heavily dependent upon a few primary goods exports for its foreign exchange earnings and crude oil imports for its energy, it is suffering perennial trade deficits equivalent to a third of its exports, and has mounted foreign debt over two and a half times its level of exports. Meanwhile, rapid population growth continues to constrain its development and constitutes a major obstacle to improving the living standards of the rural and urban poor.

1. Structural dualism

The present structure of the Philippine economy and the society which underlies it can best be described as "dualistic". Greater Manila contains roughly 12 per cent of the country's 46 million inhabitants and accounts for approximately one-third of its Gross National Product. Manila is the political, industrial, commercial and cultural center of the Philippines, and the principal port for overseas trade and commerce. Its modern business and residential areas, which are characterized by shopping centers, an international convention complex, international-class hotels, and multi-story office buildings, contrast sharply with the country's rural sector, where traditional modes of living and production still prevail. Tagalog and English are the principal languages in Manila; a diversity of dialects is used in the countryside.

This basic economic dualism exists even within the Manila area, where a relatively small elite group enjoys most of the advantages of modern living, while a large proportion of the population, many of whom are migrants from the countryside, live near and even below poverty levels.

Philippine society is dualistic not only in the sense of rich and poor, but also in terms of attitudes toward development which may not necessarily correspond to divisions in wealth. This difference in attitudes partially explains how the University of the Philippines at Los Banos, with its large number of U.S.-trained Ph.D. faculty members can exist side by side with a rice culture in which productivity per hectare is among the lowest in Asia. The obvious Americanized appearance of much that is seen is largely a veneer. The culture is still Asian, despite Spanish and American inroads.

In the Philippines, as in many other developing countries, there are relatively few economic or political channels through which rural residents can express their needs or seek to attain their ambitions. The patron-client relationships that have historically existed between local politicians and officials on the one hand and barangay residents on the other, works against the

rational allocation of resources or the enforcement of budget priorities based on need. The nature of the relationship is one of short-term mutuality, whereby the patron views his constituency as a source of political support, and the client perceives the patron as the key to securing benefits and protection for himself or his family. In such a relationship, form is oftentimes considered more important than substance. Resource allocations reflect a preference for rewarding the politically loyal rather than the achievement of development objectives.

This traditionalistic bent tends to restrict the receptivity of the rural Filipino to innovation and change. The political bias in resource allocations condition the individual to regard his role in development as a limited one. Thus, there tends to be little sense of commitment to "class action" or "community welfare". Rural people seldom organize effectively around community-wide issues or causes. Highly developed family structures and strong family ties tend to discourage cooperation between families and act as an incentive to high population growth.

Closely related to the concept of weak community interest is the subsistence orientation of much of the Philippine rural population. There is a greater concern for preserving what little one has than there is for future accumulation. This is accompanied by the general reluctance of individuals to consider new ideas or activities. The reluctance is not so much based on the notion that innovation should be completely avoided, rather it stems from an ingrained fear of possible ridicule or short-run crisis should the effort fail.

The inability or reluctance of rural residents to organize and articulate their demands are parts of a phenomenon rooted deep in Philippine colonial history. Social and political organization at the local level has normally been diffuse. In Spanish times, there arose an elite class of Filipinos who acted both as agents of Spanish rule and as buffers or, more precisely, as brokers between the people and their colonial rulers. The style of political rule became one of local elitists being patrons rather than servants of the rural peasantry. One had to serve that entity from which resources and the force of law emanated--the colonial government. These traditional relationships have persisted in many parts of the Philippines even to the present.

Since the inception of the "New Society" in 1972 under the Marcos government, the GOP has tried to alter the perception and role of the national government, vis-a-vis the rural population, to that of an innovator, an agent for change, a social transformer. It has embarked on a number of programs designed to open up the countryside "so that the people will be ready not only to actively participate in development but also to adjust effectively to the changes generated by development". Through this new approach, the "New Society" is attempting to align itself with the broader elements of the population and against the traditional oligarchs. Many elements of the government now constitute a new "technocratic" force for progressive change, which is growing and which is, in development matters at least, effectively countering the new groups of favorites or traditional style cronies that have also emerged.

This recognition on the part of the Marcos government of the need for a break with the past is unique in Philippine history. Coupled with the increasing number of progressive officials who desire equitable change and modernization, it presents an opportunity for foreign donors to support those elements of the government that are committed to the gradual and comparatively peaceful transformation of a rural society. This is particularly true of the U.S., due to our friendly historical involvement in the Philippines and our own deep-rooted desire to see the country progress.

2. The limited economic base for development

Whatever its desires for growth and development, the GOP finds itself burdened not only with cultural constraints and widespread poverty, but a limited economic base for development as well. The Philippines is a conglomeration of islands with a total land area about the size of Arizona and a coastline approximately twice that of the United States. The 28 per cent of its land area that is arable presently supports a population of some 46 million that is growing at around 2.6 per cent annually, with a density per square kilometer of 152 persons. The country still has forest reserves, but these are being rapidly depleted. Copper and nickel are its principal mineral resources and it has limited coal deposits. It is also thought to have exploitable oil reserves, but even if these are developed they would represent only about 20 per cent of its projected requirements.

Industrial development in the Philippines has historically been capital-intensive and largely focused on processing imported goods mainly for the Manila market. Manufacturing presently accounts for around 20 per cent of Net Domestic Product but only 10 per cent of total employment.

The Philippines is heavily dependent upon a few primary goods exports, i.e., sugar, coconut products, copper ores and forestry products, for the bulk of its foreign exchange earnings. Trade deficits have averaged nearly \$1 billion annually for the past 5 years, and have been roughly equivalent to the cost of crude oil imports, which currently represent one-fourth of total imports. Compared to 1970 when the country's merchandise trade was roughly in balance, the Philippines external terms of trade index dropped to 60 in 1977 on a scale of 100. Japan and the United States are the Philippines' principal trading partners.

The private sector is the predominant economic force in the Philippines. Presently, it accounts for nearly 80 per cent of fixed capital formation, some two-thirds of the net loanable funds of banking institutions, and almost three-fourths of the net loanable funds of nonbank financial institutions. Private sector efforts to promote rural development programs generally lag behind those of the government.

3. Conditions of widespread rural poverty

a. Skewed distribution of income

Income distribution is heavily skewed in the Philippines. The best available data indicate that the "upper 10 per cent" of the population presently account for around 39 per cent of total family income while the "bottom 40 per cent" live in absolute poverty, below the minimum level needed to provide adequate nutrition and other basic needs. Included are about one-fifth of the country's urban residents and three-fourths of its rural population. An additional 30-40 per cent of the population live in relative poverty, at incomes just above the minimum needed to sustain adequate livelihood. Since it is the lower income groups that tend to have larger families, rapid population growth tends to exacerbate the maldistribution of income.

b. Dimensions of Poverty

The minimum adequate expenditure level for a rural family of 6 was estimated in 1971 to be between \$720-780, or about \$120-130 per capita. Adjusting for inflation and changes in the dollar-peso exchange rate, the minimum level in 1978 would be at least double, or about \$250 per capita. Average per capita GNP in 1978 for the nation as a whole was \$475, in current dollars. Household income and expenditure surveys indicate that average rural household incomes increased as a percentage of the national average, from 75 per cent in 1971 to 82 per cent in 1975, while urban household incomes fell from 157 to 143 per cent of the national average during the same period.

Most of the rural poor are farmers, landless farm laborers, fishermen, hunters, loggers or cottage-industry craftsmen. Most rural poor families do not depend upon just one occupation for income. Farm size is a factor. Of the country's 2.4 million farm units, about 85 per cent are less than 5 hectares. Full owners represent approximately 60 per cent of all farm operators. The remainder are tenants, most of whom pay at least one-quarter of the value of their crop as rent to landlords.

As further indicators, roughly one-third of the country's children and one-fifth of its adults suffer from malnutrition, though expenditures for food account for 57 per cent of total household expenditures. Infant mortality in some rural areas runs as high as 112 per thousand live births during the first year of life, and death claims nearly as many children under five as it does adults throughout the country. Less than one-half of the population have access to general health services. Sixty-five per cent of households do not have electricity; only 43 per cent have a potable water supply; only one-third have sanitary toilet facilities. This situation can be expected to deteriorate further unless major programs to alleviate these conditions are expanded and until programs to limit fertility take hold.

4. The principal causes of widespread poverty and the major constraints to their removal

Widespread poverty has come to be regarded as a normal feature of developing countries and is often viewed as the consequence of current factors, such as misdirected policy measures or the misallocation of budgetary resources. These factors contribute to be sure, but the principal causes generally run deeper in history and in the structure of the society. This is the case in the Philippines.

In analyzing the poverty situation in the Philippines, two comparatively recent reports were found to be very useful. The first is the study of development problems that was conducted in 1972-73 by the International Labor Organization (ILO Report); the second is the comprehensive report on the priorities and prospect for development in the Philippines prepared by a World Bank team in 1976 (IBRD Report). A detailed summary of these two reports is contained in Annex B. Following is a brief review of their major findings with respect to the causes of poverty in the Philippines and the major constraints to removing them.

a. Rapid population growth

The high rate of population growth (which averaged 3.1 per cent annually during the 1960's and 2.8 per cent in the early 1970's) is considered in both the ILO and IBRD reports to be the largest single cause of widespread poverty in the Philippines. It has restrained the growth of family incomes; exacerbated the country's employment problems; contributed to the skewed distribution of income and assets; helped to create widespread nutritional and health problems; and overburdened the country's school and health systems and other infrastructural facilities.

Concern for potential opposition from conservative elements of the population caused the government to move slowly in responding to the country's population growth problems, and constrained its support in the early phases of the family planning program. The GOP finally adopted an active role in 1970, and has since strongly supported family planning efforts. As in all Catholic countries, opposition from the church to some forms of contraception hindered the spread of family planning methods. The idea that large families provide old age insurance particularly if there is high infant mortality, still exists.

Limited access to family planning services, ignorance about the benefits of family planning and the methods used, and the limited use of some of the more effective means of contraception are presently greater constraints, however, especially in the rural areas. In trying to bring its population growth down to manageable limits, the Philippines is attempting to achieve without recourse to abortion what the more successful other Asian countries have been able to do only where abortion is legal.

Because of past population growth, the Philippines has a growing surplus of rural labor. The job-creating capacity of agriculture and rural

industry has not kept pace. Rural unemployment has been estimated at 8-10 per cent of the labor force; underemployment is widespread. Large numbers of rural workers perennially migrate to the cities in search of jobs.

- b. Limited productive assets and their maldistribution, leading to low levels of employment and labor productivity and an income distribution skewed away from the poor

Infrastructure and industrial capital is heavily concentrated in Manila and Central Luzon, while being virtually non-existent in many outlying provinces. The ILO Report considers this concentration to be more pronounced in the Philippines than almost any other developing country. It further cites the unbalanced pattern of resource allocation and industrialization which marked Philippine development for several decades prior to the 1970's, as the root cause of the narrow base for participation in growth. This narrow participation coupled with rapid population growth became, in turn, the underlying cause of falling real incomes for the very poor and a worsening of the overall distribution of income in the face of a satisfactory rate of overall growth. It also contributed to the development of a capital-intensive investment bias in an increasingly labor-abundant economy. The concentration of trained and experienced human capital in the Manila area and its scarcity elsewhere has been equally pronounced.

- c. Inefficient production and marketing technology in the rural sector

Despite the development of high-yielding rice varieties by the International Rice Research Institute (IRRI) at Los Banos, average yields of rice per hectare in the Philippines are among the lowest in Asia. Most of the other productive sectors of the country's rural areas suffer from equally low productivity. This is one of the single most important causes of poverty in the Philippines today, given that some three-quarters of the country's poor live in the rural areas.

The physical and economic isolation among and within regions resulting from the country's insular character and its effects on limiting access to improved production and marketing techniques, constitutes one of the chief causes of the low productivity levels and also presents an obstacle to raising them. The geographic diversity of the Philippines contributes to the problem. In many areas, poor drainage, frequent floods, salinity intrusion, dry-season water shortages, wind damage, and silting take a heavy toll of annual crop yields. A general lack of all-weather roads and adequate port facilities add further to the problem. Approximately one-half of all rural villages still have poor farm-to-market roads that are often impassable during the rainy season, and another 20 per cent have little more than footpaths.

d. Shortage of program development and management capabilities at the provincial and local levels

Central government efforts to construct and maintain needed infrastructure are hampered by the marked economic, social and cultural diversity prevalent in the Philippines. Such diversity calls for the decentralized planning and implementation of development programs, coupled with decentralized control over available resources. Decentralization is seriously inhibited, however, by the general scarcity of administrative, managerial and technical skills in rural areas, particularly among the local governments.

e. Widespread ignorance about preventive health and nutrition practices, including family planning, especially among the rural poor

The major health problems of the Philippines are communicable diseases and malnutrition. The high prevalence of communicable diseases can be attributed to a lack of sanitary water supply and sewerage facilities, to crowded and unsanitary housing, and to inadequate immunization programs. Lack of access to health services is also a key contributing factor, particularly in the rural areas. About 22 per cent of registered deaths are not medically attended and over a third of births are attended by untrained midwives.

The basic orientation of the country's health care facilities is curative rather than preventive, and this constrains efforts to improve health care and to promote family planning, a key preventive method. Turning this around will be difficult as many of the country's better trained medical personnel have left for overseas employment or are seeking jobs abroad. A lack of adequate financial resources and the wide dispersion of the rural population are also constraints to progress in this general area.

f. Deteriorating environmental conditions

Rapid deforestation is reducing the supply of wood for construction and cooking fuel, reducing the retention of water for dry season use, and increasing the problem of siltation in downstream drainage and irrigation facilities. Congested and ramshackle housing contributes to the high incidence of tuberculosis and other contagious diseases, especially among the poor. The lack of sufficient potable water and sanitation facilities likewise contributes to the high incidence of water-borne parasitic and infectious diseases, again especially among the poor.

Growing population pressure for land and living space, and for the energy and other resources needed to sustain livelihood, is the principal constraint to improving environmental conditions in the Philippines. A second major factor is the scarcity of capital resources for investment in reforestation, pollution control, better housing and improved water and sanitation facilities. The absolute poverty of most of the population groups involved, coupled with the inadequate mobilization of domestic resources, constitutes a third major constraint.

g. Lack of domestic energy resources

While efforts are underway to develop the country's limited hydro-electric, geothermal, petroleum and coal resources, the combined output from all of these sources will at most satisfy only some 20 per cent of the country's projected energy needs. Crude oil imports presently amount to nearly \$1 billion and constitute about one quarter of total imports.

B. The GOP's Strategy for Development

The recommendations resulting from the ILO and IBRD studies cited earlier have strongly influenced GOP development planning and policies in recent years and have been used as the basis for the formulation of the country's long-term development strategy up to the year 2000, and its five and ten-year development plans for the periods 1978-82 and 1978-87.

In its report, the ILO team recommended a two-pronged strategy. The first prong would involve the mobilization of the rural sector in order to achieve balanced growth with equity through the sustained expansion of labor-intensive agricultural production on the one hand and the development of labor-intensive medium and small-scale industry on the other. The second prong would involve an intensive drive to promote the increased export of diversified labor-intensive industrial products to obtain increased foreign exchange earnings. The labor-intensive focus of this proposed strategy represents its main equity feature.

The IBRD team generally endorsed the ILO strategy, but placed greater emphasis on the construction of large-scale industrial plants in the regions outside Manila, to serve as decentralized growth poles for the development of broader-based industrial complexes in those areas. The IBRD team also stressed the need for greatly expanded public investments in rural infrastructure to lay the basis for long-term industrialization. It recommended greater reliance on increased non-traditional exports and suggested that the GOP look to increased foreign inflows as sources for financing the construction of the facilities and plants needed to carry out the strategy. The team also underlined the need for reduced population growth as a major step to raising family incomes and welfare.

The GOP adopted the balanced growth with equity approach proposed by the ILO as the basis for its current long-term development strategy, but modified it to include the decentralized large-scale industrialization feature suggested by the IBRD. Further, as reflected in its Five-Year Development Plan for 1978-82, the GOP is planning to sustain its development efforts in the interim by emphasizing the expansion of small scale, labor-intensive agricultural production and the growth of non-traditional manufacturing industries. It has also added a strong basic needs emphasis to its development strategy, including an active population policy, and is placing the main burden for financing the large-scale industrialization scheme upon the country's private sector. The costs of the basic needs programs are to be borne increasingly by the local communities benefiting from these programs. The government, with assistance from foreign donors,

plans to finance the basic infrastructural facilities needed for industrialization. The AID program relates directly to the small-scale agricultural, population, basic needs, and local participation elements of the GOP strategy.

Because of a prolonged slow-down in industrial activity in recent years, including less than expected economic growth and poor export performance in 1978, the GOP has delayed its plans to construct some of the larger-scale projects included in its development plan and is focusing more closely on the development of labor-intensive, export-oriented industries. This shift in emphasis should enable the country to reduce its demand for capital imports and facilitate the growth of exports, while increasing the job-creating capacity of the industrial sector.

1. Absorptive Capacity

A unique feature of Philippine rural society is the considerable amount of individual upward mobility that takes place, despite the generally static orientation of the society and the limited channels for economic self-improvement. Considerable numbers of people from low-income areas of the country, rural and urban, attend college. Not all find jobs commensurate with their training, but their situations generally do improve. In Manila, possibly ten per cent of the population is enrolled in college or post-high school training at any given time. Many of these people are from the provinces. A large proportion are women. Nationwide, the figure is lower but still impressive for a developing country. The U.S. played a role in bringing about this favorable situation by encouraging education during the colonial period. The Spanish tradition was in the opposite direction.

An important advantage of this development is that it has produced a number of young men and women who are willing to work with enthusiasm and dedication in rural development programs. The AID-supported population outreach, nutrition and small-scale irrigation programs, to name a few, are based upon the increased availability of these enthusiastic and well-trained workers.

The emergence of this progressive group has helped to ease a major constraint to development and to alleviating the conditions of rural poverty. It has also greatly enhanced the Philippines' capacity to absorb foreign donor inputs. There are, however, other barriers that still tend to limit the amount and kinds of assistance the country can effectively use. These include the limited financial resources available for development programs at the local and provincial levels; coordination problems among national agencies operating at the local level, and between the national agencies and locally-based organizations and institutions; and the traditional attitudes toward development that still persist among the majority of the rural population.

As noted earlier, the GOP is aware of these problems and has not hesitated to enlist the support of foreign donors in searching for ways to overcome them. The same applies with regards to most local government agencies and institutions. In the case of AID, this collaborative approach has worked

successfully in a number of areas, and most prominently in the case of the PDAP, nutrition, rural electrification, and Bicol River Basin Development programs.

Looking to the future, probably the most inhibiting obstacle to expanding development programs is the limited resource mobilization capability of both the central and local governments. Tax reform measures undertaken by the GOP in the early 1970's resulted in an increase in revenues from 10 per cent of GNP in 1970 to 13.6 per cent in 1975. The ratio declined to 12.8 per cent in 1977, however, primarily because of slow growth in revenues related to trade. Local expenditures for development programs are heavily dependent upon contributions made through the national budget. Moreover, foreign aid inflows have more than tripled since 1972 and are projected to increase further over the next few years. While a large proportion of these inflows relate to large-scale capital-intensive projects, counterpart requirements have nonetheless mounted and the GOP has recently found itself in the position of having to develop better financial monitoring methods in order to ensure adequate and timely matching inputs.

2. Progress and Commitment

A recent report published by the Office of Program Policy Coordination listed commitment to development by the Government of the Philippines as "poor". USAID categorically rejects this judgment as it is simply not substantiated from our analysis of the GOP's efforts to meet the needs of the rural poor. GOP awareness of the difficulties it faces in trying to rectify the inequities of rapid population growth and widespread rural poverty, is evident from the steps it has taken to map out appropriate strategies and to obtain the mix of resources needed to overcome these problems. Rhetoric aside, the present government has done better at this than any previous Philippine government and has achieved results that are comparable if not more beneficial than those achieved in most other developing countries. GOP planners are well aware that the causes of poverty and the constraints to development are rooted deep within the structure of the society and that current policies and programs aimed at eliminating them represent for the most part the initial phases of a long and complex process. From all indications, they are in for the long haul.

The imposition of Martial Law and the institution of the "New Society" in 1972, following a period of prolonged and steady political and economic deterioration, served as the launching pad for a revitalization of the country's commitment. Leaders from all sectors of the country were pressed into public service to serve as the architects of the "New Society". Collectively, they formulated a comprehensive strategy for development which was incorporated into the country's development plan for the 4-year period, 1974-77. When this appeared inadequate, the GOP called upon the ILO for help in adjusting its strategy. Following the world oil crisis in 1974, which led to serious inflationary and balance of payments problems in the Philippines, the GOP obtained IBRD and IMF consultative assistance in searching for solutions to these problems. The results of these various consultative efforts have been manifold. They include the overall long-term strategy for rural-based development discussed above; a series of annual budgets that have focussed increasingly on countryside development;

a medium-term financial plan for the 3-year period, 1976-78, which has served as the blueprint for restoring financial stability to the economy following the oil crisis; and the present Five-Year Development Plan for 1978-82, which is supported by a Ten-Year Plan covering the period 1978-87 and an indicative long-term plan to the year 2000.

The GOP has also instituted a number of policy measures since the early 1970's to improve its methods for mobilizing and allocating development resources. These have included periodic tax reform measures, rationalization of the tariff structure, liberalization of import restrictions and exchange controls, a reordering of investment priorities, refinement of investment incentives, and the establishment of a floating exchange rate. That these efforts had meaningful impact is evidenced by the shift upward in the level of gross domestic capital formation from 21 per cent of GDP in 1971-1973 to around 30 per cent in 1975-77, and an increase in private savings from 8 per cent of GDP in 1970 to 15 per cent in 1977.

The Philippine Government has also acted on the budgetary front. It is now committing a sizeable share of its available resources to economic and social development programs of major benefit to the country's poor and is planning to increase this share over the next five years. In 1977, Philippine national budgetary expenditures for economic and social development projects amounted to Pesos 15.4 billion, or roughly \$2.0 billion. This represented 60 per cent of the total national budgetary expenditures in that year. Of the \$2.0 billion, approximately \$1.3 billion or about 66 per cent were allocated to basic needs projects in areas such as food production, education, population, health, nutrition, and housing. An indication of the extent to which government expenditures meet planned targets is evident from Table 32 in Annex A, which shows a modest overrun for social service projects in 1976, the latest year for which final data are available, and shortfalls in industry and infrastructure.

As indicators of the relative success of the GOP's efforts to promote development, GNP growth in real terms has averaged 6.5 per cent annually since 1970; the rate of inflation has been held to 12 per cent. Continued GNP growth increasing from 7 to 8 per cent per annum and annual inflation of around 7 per cent are forecast in the Plan for 1978-82, though these targets appear optimistic in the light of the economy's performance during the past year. Allowing for population growth, GNP per capita has been averaging annual increases of around 3.7 per cent since 1970. This is projected to rise in future years, as the steady growth in GNP continues and the rate of population growth declines.

There has been only modest improvement in the distribution of income since 1970. The "bottom 40 per cent" of the population increased its share of total family income, from 12 per cent in 1970 to 15 per cent in 1975. Further improvement is expected over the next 5-10 years. Until the rapid population growth slows, however, this further improvement will be hard to achieve. It should also be remembered that the Philippines remains a free enterprise society roughly on the U.S. model. In a high population growth LDC, this allows opportunities for accumulation in the small middle class as well as the top of the pyramid which are difficult to restrain if growth is to be maintained.

Perhaps, the greatest gains since the early 1970's have been realized in agriculture. Between 1972 and 1978 rice and corn production increased by nearly one-third; the production of fruits and vegetables doubled. Irrigated farmland was expanded by nearly 60 per cent; the rural road system extended by one-quarter. Agricultural credit nearly doubled; the number of rural banks increased seven-fold. An additional 300,000 rice and corn farmers, representing one-fifth of the total number of rice and corn farmers in the country gained ownership rights to the lands they till. There were some 3,000 agricultural researchers in 1978 compared to only 1,875 in 1972, and 50 agricultural marketing cooperatives in 1978 compared to none in 1972. Average net farm family income on rice and corn farms less than five hectares in size, rose from \$300 in 1972 to \$350 in 1978.

Considerable progress has also been achieved during the 1970's in the basic needs areas. The population growth rate declined from 3.1 per cent in 1970 to 2.7 per cent in 1975. It is projected to decline further to 2.3 per cent in 1982 and 2.1 per cent in 1985 and lower rates are possible if expanded family planning coverage can be achieved. The crude death rate declined from 12 per thousand population in 1970 to 10 at present. Infant mortality dropped from 81 per thousand live births in 1970 to 74 at present. During the same period, average life expectancy rose from 56 to 60 years, and literacy rose from 83 to 87 per cent. Although the per capita caloric deficit does not appear to have changed during the 1970's; the prevalence of malnutrition in pre-schoolers, severe and moderate, has decreased from about 36 per cent to 30 per cent, a reflection of the successful targetting of PL 480 food to the poor.

In 1970, only 23 per cent of the total population had access to electricity; this was increased to 35 per cent by 1977 and has gone even higher since then. The percentage of the population with access to piped water increased from 24 per cent in 1970 to 43 per cent in 1975. This too has risen since then. Further progress is expected in these areas as is reflected in the Five-Year Plan targets contained in Annex C. These future gains will not be easily come by, however, and will require a continued and sustained commitment by the government to the effective implementation of its basic needs programs.

The results of local development over the 1972-1978 period reflect the growing involvement of the GOP in this area. The rural infrastructure sector affords a tangible example where some thirty one provinces spent \$20 million to build nearly 1000 kilometers of rural roads and over 6000 lineal meters of bridges, servicing an influence area supporting two million rural people. But this effort represented only the externally visible results of the expanded local capacity. In the process, local government capital stock was increased substantially through the construction of equipment pools, acquisition of road equipment, installation of a radio network, and the development of quality control labs. Staff planning and project design capabilities were also strengthened.

The gains recorded in this local development effort are not simply the results of a "trickle down" process by which the largess of the central government was scattered piecemeal to the provinces. They are the results of a

painstaking GOP effort to build local capacity through improvements in planning, management, organization and personnel administration in provinces, cities and municipalities. To this end, local governments invested over \$3 million in project funds during the period, while an additional \$8 million was spent by local and central agencies in the related training of local officials and citizens. Viewed from the manpower perspective, these same local governments increased their planning and management staffing by some 200 positions, while parallel increases in technical staffs also occurred.

C. The Need for Foreign Assistance

In order to achieve the goals and targets included in the Five-Year Plan, the GOP will require continuous inflows of foreign donor assistance. This point has been well documented and agreed to at successive IBRD-sponsored Consultative Group meetings. Although such inflows as a proportion of GNP are projected to decrease from 4.9 per cent in 1978 to 3 percent in 1982, they will need to be substantially increased in absolute terms. To keep the country's debt burden within tolerable levels, a significant proportion of inflows must be on concessional terms. The Plan will require average expenditures for economic and social development programs of around \$4.6 billion annually. Of this amount, foreign donor contributions are expected to average approximately \$900 million, or roughly 20 per cent of the total. The multilaterals will continue to provide the bulk of this assistance. A detailed breakdown of all current foreign-assisted projects is contained in Annex D.

In 1977, total foreign assistance to the Philippines amounted to some \$720 million. Of this amount, the World Bank accounted for approximately 44 per cent; the ADB, 28 per cent; the U.S. roughly 13 per cent; Japan, 8 per cent; and others, including Australia, Canada, and the UN agencies, the balance of 7 per cent. Japan's share is expected to increase significantly in the next several years; those of the U.S. (excluding ESF) and the ADB will probably show modest relative declines.

The role of the United States in Philippine development has been discussed fully in Part I. A summary of the major areas of concentration of the other donors is contained in Annex D. By design, U.S. assistance is more directly related to the basic needs of the rural poor than that of the other donors. However, the other donors have not hesitated to follow-up where appropriate, as has been amply demonstrated in the case of rural electrification, local water supply, family planning, health and agricultural extension. A detailed analysis of the beneficiaries of AID assistance is contained in Annex E.

PART III - PROPOSED ASSISTANCE PLANNING LEVELS (PAPL)

The planning levels shown in the table below represent the minimum annual DA levels required if AID is going to have a favorable impact on reducing the constraints to development during the five-year period in question. Our decision to adhere to the Indicative Planning Allocation (IPA) level of \$72 million should not be construed as acceptance of the limited need/commitment of the Philippines towards development suggested by AID/W, nor as an indication of absorptive capacity. As evidenced in past years, the Philippines has the capacity to utilize development resources in excess of those presently available. Further clarification of the PAPL is contained in Annex F.

Proposed Assistance Planning Levels (PAPL)	(In Thousand Dollars)					
	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>Total</u>
Small Farmer Assist.	<u>22,216</u>	<u>39,000</u>	<u>38,000</u>	<u>45,000</u>	<u>57,000</u>	<u>201,216</u>
Prod. Tech.	7,600 ^{1/}	5,000	4,000	4,000	4,000	24,600
Supporting Infra.	14,616 ^{2/}	34,000	34,000	41,000	53,000	176,616
Social Dev.	<u>23,670</u>	<u>13,000</u>	<u>19,000</u>	<u>19,000</u>	<u>15,000</u>	<u>89,670</u>
Population	15,000	6,800	7,750	12,700	13,800	56,050
(Outreach/Support)	(6,000)	(6,800)	(7,750)	(8,700)	(9,800)	(39,050)
(Contraceptives)	(9,000) ^{1/}	-	-	(4,000)	(4,000)	(17,000)
Nutrition	1,170	6,200	11,250	6,300	1,200	26,020
(Maternal/Child)	(516) ^{1/}	(469) ^{1/}	(376) ^{1/}	-	-	(1,361)
(Local Food Prod.)	(654) ^{1/}	(5,731) ^{3/}	(10,874) ^{4/}	(6,300)	(1,200)	(24,659)
Health	7,500	-	-	-	-	7,500
(Water & Sanit.)	(7,500) ^{1/}	-	-	-	-	-
<u>Local Part. in Dev.</u>	<u>531</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>531</u>
Local Planning	291 ^{1/}	-	-	-	-	-
Reg. Decent.	240 ^{1/}	-	-	-	-	-
TOTAL	<u><u>46,417</u></u>	<u><u>52,000</u></u>	<u><u>57,000</u></u>	<u><u>64,000</u></u>	<u><u>72,000</u></u>	<u><u>291,417</u></u>

^{1/}Prior Year Commitment (PYC)

^{2/}Of which \$4,216 is PYC

^{3/}Of which \$731 is PYC

^{4/}Of which \$874 is PYC