

# Country Development Strategy Statement

**FY 1984**



## PHILIPPINES

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Agency for International Development  
Washington, D.C. 20523

BEST AVAILABLE

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FY 84 CDSS

TABLE OF CONTENTS

	Page
INTRODUCTION	1
PART I ANALYSES	4
A. Purpose of Analyses	4
B. Comparison of CDSS Regions	5
C. Policy Issues	7
PART II STRATEGY	12
A. Overall Assistance Strategy	12
B. Summary of Program Strategies	18
1. Rainfed Resources Development	18
2. Rural Private Enterprise Development	28
3. Local Resources Management	34
4. Fertility/Infant Mortality Reduction	39
C. Supporting Programs	43
PART III RESOURCES	46
A. Portfolio Management	46
B. Indicative Planning Allocations	46
BIBLIOGRAPHY - USAID-sponsored Analyses and Reports in Support of Philippine CDSS	51
ANNEX A - Macro-Economic Trends and Policy Implications	1

## INTRODUCTION

Over the past three years, USAID/Manila has evolved with the GOP an assistance strategy for the Philippines based on a growing understanding of the dynamics of poverty. The departure point for this strategy has been the identification of the major rural subgroups within the low-income stratum of Philippine society and analysis of their livelihood activities. The principal objective of the strategy is to generate more productive employment for these subgroups in relatively depressed regions by concentrating assistance in four core program areas: rainfed resources development, rural private enterprise development, local resources management, and fertility/infant mortality reduction. The Mission has made considerable progress in elaborating specific assistance strategies for each of these program elements in keeping with the changes in the country setting and new initiatives of both the Philippine and U.S. governments. This CDSS update documents this progress drawing on the implications and conclusions arising from our analytical work and ongoing dialogue with the Philippine government. Consistent with Asia Bureau guidance, it is not a self-contained document and should be read in conjunction with previous strategy statements and the separately submitted analyses and reports available at the Philippine Desk.

A number of significant events have taken place since the last CDSS which have altered the country setting for implementing Mission strategy in ways that are not yet fully clear. Last year (1981) saw the lifting of Martial Law and the adoption of a new constitution patterned after the French 5th Republic, with a strong President and a Prime Minister charged with directing day-to-day government operations including the management of national development. President Marcos was reelected for a six-year term of office and the new constitution has established a mechanism of succession. Minister of Finance

Cesar Virata was appointed Prime Minister to head a reorganized cabinet composed largely of competent technocrats. His appointment promises a tougher approach and stronger commitment to correcting the country's current economic and financial difficulties and to accelerating the pace of development. The cabinet reorganization has: a) brought new people into some of our key counterpart agencies at the cabinet and sub-cabinet levels (e.g. NEDA, Ministry of Natural Resources, Ministry of Agriculture, Population Commission); b) recognized the Ministry of Human Settlements as a major coordinating as well as a line agency; and c) reaffirmed the policy of increasing regional and local government authority over development and other matters. These changes offer new opportunities as well as challenges for implementing our assistance strategy. The key to expanding our relations with such ministries as MHS and opening new relations with other ministries like the Ministry of Natural Resources is to remain flexible and foster a continuing dialogue at all levels.

The new Cabinet has introduced a major development program aimed at improving the livelihood of the average Filipino--the Kilusang Kabuhayan at Kaunlaran (KKK) or National Livelihood Movement--in recognition of the difficulties encountered by current development programs in alleviating widespread poverty and the growing unrest in the more isolated and depressed areas of the country. The Cabinet is also considering the next Five-Year Plan (1983-1987) which aims to promote a more favorable climate for private enterprise, more efficient government operations, more equitable distribution of development gains, and human development. It emphasizes: 1) balanced growth among sectors and regions, 2) self-sufficiency in food and development of natural resources, 3) industrial restructuring and export development; 4) greater self-reliance in energy and development of supporting infrastructure with the greatest direct impact on livelihood activities (KKK); and 5) the development of science and

technology.<sup>1/</sup> While the actual Plan document has not been released, preliminary indications are that it represents largely a continuation of the GOP's previous employment and rural mobilization strategy our CDSS is designed to support, with appropriately enhanced emphasis on economic reform, private sector promotion, and energy development. One notable change from the past is the Plan's reduced emphasis so far on population.

The changes in the country setting over the past year should facilitate continuing close U.S.-Philippine relations. Our special relationship with the Philippines is founded on strong historical and economic ties along with our mutual interest in regional stability. The strategically important military base rights accorded to the U.S. by the Philippines are but one manifestation. The fact that the Economic Support Funds associated with the 1979 military bases agreement are increasingly being programmed in support of the CDSS objectives is another. Such close ties in the current setting offer a unique opportunity for AID to sustain a dialogue on key development issues consistent with the new emphases of the Reagan Administration. During FY 84 a review of the amended bases agreement will be conducted. This could have far-reaching effects on our development relations beyond 1984. It is not useful, however, to speculate about this at this time.

There are strong development reasons for continuing our assistance here in addition to long-standing U.S. foreign policy objectives. First, widespread poverty is leading to growing unrest which in time can undermine the country's stability. Second, most of the estimated 4 million households (or about 24 million people) in the Philippines who are poor are not being effectively reached. Third, while there has been encouraging evidence of declining fertility, high

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<sup>1/</sup> Manila 28406, 12/03/81.

population growth remains a threat to sustained development. Fourth, jobs, especially in the industrial sector, have not been created fast enough to absorb the full labor force productively. Fifth, an unbroken record of partnership spanning 35 years in finding innovative solutions to development problems has created respect for U.S. technology and links with public and private institutions which give AID a unique opportunity to help bring about more broadly-based development that transcends the absolute level of our resource transfers. Finally, the U.S. together with other donors, can encourage and support further GOP efforts to restructure the economy and adopt policies conducive to greater growth with equity.

## PART I - ANALYSES

### A. Purpose of the Analyses

Substantial analytical effort has gone into supporting the CDSS process since the FY 82 CDSS was approved. A set of agricultural, economic, and poverty household profiles have been completed for each of the three core CDSS regions--Bicol (V), Western Visayas (VI), and Eastern Visayas (VIII). Similar analyses should be ready by the end of January 1982 on Ilocos (I) and Cagayan Valley (II). Sectoral overviews (e.g. Population, Health, Nutrition, Upland Hilly Development and Coastal Zone Management); policy analyses (e.g. macro-economic and rainfed agriculture); and assessments of the economy, other donor activities, and energy have also been prepared. (The Bibliography contains a complete listing.)

The Mission initially undertook to synthesize data on poverty groups and the causes of poverty. In the FY 82 and FY 83 CDSS we basically considered the first order implications of the analyses for broad strategy outlines. The analyses were especially important in facilitating consultations with GOP counterparts and the academic community and in informing

Mission choices during brainstorming sessions on strategy options. The regional analyses were originally intended to serve a similar purpose in defining specific regional strategies. However, our decision last year to develop umbrella projects spanning regions, with flexibility to respond differentially to particular regional circumstances, obviated the need for developing regional strategies. Instead the regional profiles along with the other recently completed analyses are being used to trace the second order implications for actual project development and eventual implementation.

B. Comparison of CDSS Regions

The completed analyses of the three core CDSS regions jointly selected by NEDA and USAID reveal a number of significant differences and characteristics among the regions.

As Table I shows Bicol (V) is the poorest and weakest economic performer of the three regions, with Eastern Visayas (VIII) running a close second. Both regions' low agricultural productivity is directly associated with their heavy dependence on coconuts, their vulnerability to typhoons, the prevalence of fragmented land holdings and low farmgate prices. Low industrial productivity reflects private investment disincentives, limited infrastructure, costly and unreliable energy, and poorly developed internal markets. Western Visayas (VI) is clearly better off, with a lower incidence of poverty (although a greater absolute number of poor residents) and near or above average industrial and agricultural productivity. In agriculture the region has become a major rice bowl, recording the highest average yields in the country.

Table II lists the major poverty groups found in each region. In terms of numbers and degree of poverty, coconut farmers are the most significant poverty group in Bicol and Eastern Visayas, while landless agricultural

TABLE I  
 CDSS REGIONAL COMPARISON OF POVERTY AND  
 MACRO-ECONOMIC PERFORMANCE INDICATORS

	Region			Average/Total for Philippines
	V	VI	VIII	
A. Incidence of Poverty <sup>1/</sup>	71	65	73	64
B. Total No. (000) of Poor Households <sup>2/</sup>	368	441	322	4,413
C. Percent of Total Poor <sup>3/</sup>	8.3	10.0	7.3	100
D. Industrial Production Index <sup>4/</sup>	25	91	27	100
E. Agricultural Productivity Index <sup>5/</sup>	86	137	90	100
F. Rank <sup>6/</sup>	1	3	2	

<sup>1/</sup> Percentage of families in 1975 receiving income below food poverty threshold, the latter calculated separately for each region based on relative cost of living indices for each region.--Calculated from income data in "Family Income and Expenditures: 1975," Special Release No. 190, NCSO, March 1977. Food poverty thresholds adapted from Ma. Alcestis S. Abrera, "Philippine Poverty Thresholds," in Mahar Mangahas, ed., Measuring Philippine Development, Development Academy of the Philippines, 1976.

<sup>2/</sup> Source: Regional Profiles prepared by USAID, 1981.

<sup>3/</sup> Percentage regional composition of all families below food threshold. The sum of all 13 regions = 100%. The Philippine average is taken to be 1/13, or 7.7%.

<sup>4/</sup> Index of 1974 Regional Gross Domestic Product (GDP) contributed by industrial sector per capita of regional population, with the Philippine average of ₱504 (\$71) (in 1972 prices) = 100. --Calculated from NEDA, Table 10, p. 40, citing NCSO National Accounts Staff as source. 1974 population by region estimated from NCSO, Philippine Yearbook 1978, NEDA, Manila, Table 3.3.

<sup>5/</sup> Index of 1974 Regional GDP contributed by agricultural sector per agricultural worker, with the Philippine average of ₱2310 (\$327) (in 1972 prices) = 100. --Calculated from NEDA, op. cit., Table 9, p. 39, citing NCSO National Accounts Staff as source.

<sup>6/</sup> The regions are ranked according to most depressed among the three based on poverty (variables A & B) and macro-economic performance (variables D & E).

(especially sugar) workers are the most significant in Western Visayas. Shifting cultivators are ranked second in all three regions. Only in Western Visayas, however, do they represent an important percentage of the regional population, but the impact of their livelihood activities is felt by a much larger number of farmers further down the watershed, most notably the rainfed lowland rice farmers who are important especially in Western Visayas and Bicol. Concentrations of fishermen are found across all three regions, with Eastern Visayas showing the greatest percentage.

Understanding the distribution of major poverty groups within the regions has been useful in designing projects responsive to the needs of the major target groups. Provincial distribution information should be even more useful for targetting project implementation and will be collected as part of the Local Resources Management Project.

#### C. Policy Issues

The analyses have also been instrumental in pinpointing key policy areas affecting the strategy. The Mission can play a productive role in drawing attention to some of these policies by: a) supporting objective research on the effects of selected policies on government objectives and programs; b) providing opportunities for professional interchange among government agencies, academic and private representatives; c) pursuing informal discussions at various government levels, relying on daily contacts, close personal relations, and the intrinsic value of good ideas; and d) building the institutional capacity to analyze and carry on policy reform, where appropriate, as part of the projects we support.

In playing this role we need to be realistic in our expectations and recognize that the level of resources available to USAID generally precludes the kind of policy leverage the IBRD and IMF may exert. Furthermore, as a

TABLE II

Distribution of Major Poverty Groups Among CDSS Regions<sup>1/</sup>

Group	Region						Philippines (1975)
	V (1980)		VI (1974)		VIII (1975)		
	N (000)	RK*	N (000)	RK*	N (000)	RK*	
A. Landless Agricultural Worker Households	19.2 (7.7%)	2	62.5 (21.9%)	1	44 (14.1%)	3	600 (16.7%)
B. Coconut Farmer Households	95.2 (38.3%)	1	15.5 (5.4%)	6	115 (37.0%)	1	**
C. Shifting Cultivator House- holds	16.3 (6.6%)	2	45 (15.7%)	2	20 (6.4%)	2	500 (13.9%)
D. Upland Rice/Corn Households	17.4 (7.0%)	4	18.5 (6.5%)	3	28 (9.0%)	4	1,000 (27.8%)
E. Rainfed Lowland Rice Farmer Households	58.8 (23.7%)	3	109.5 (38.3%)	4	45 (14.5%)	5	900 (25%)
F. Artisanal Fishermen Households	41.4 (16.7%)	4	35 (12.2%)	5	59 (19.0%)	6	600 (16.7%)
Total for Major Groups	248 (100%)		286 (100%)		311 (100%)		3,600 (100%)
% of Total Population	43		42		71		53

1/ The regional profiles are not fully comparable since household population estimates are derived from different base years and sources (e.g., surveys, 1975 census, and 1980 census). Thus absolute numbers of households in each group are higher, for example, in Bicol relative to the other regions on account of population growth over 5 years. Nevertheless, the percentage distribution among groups as well as the rankings should be reasonably comparable across regions.

\* Rankings indicate most significant poverty groups within the region based on annual household income, number of poor households, and in Region VIII, nutrition status. They are drawn from Regional Poverty Profiles prepared by USAID, 1981.

\*\* Coconut farmers were not broken out from upland farmers in Table 2 of FY 1982 CDSS.

bilateral donor a low key, but continuous dialogue on selected issues of direct relevance to our assistance strategy is more appropriate than attempting to impose policy conditions on our assistance. Such dialogue tends to be most effective when seen as sharing ideas and stimulating discussion. In a country like the Philippines, AID seldom discovers an issue. But we can help bring together those who are concerned about a given policy and draw added attention to it by lending the weight of our voice to theirs.

The Mission has carried on a policy dialogue in this fashion for at least a decade on such key issues as family planning, decentralization, and local resource mobilization. We will continue to do so in the context of program development and implementation. Indeed, we currently find ourselves at the forefront of the development dialogue within private, academic, and government circles; for example, on the issue of sustainable land use in designing the Rainfed Resources Development Program and on the question of cost effective delivery systems in designing the Primary Health Care Financing Project. One policy issue the Mission will be closely monitoring in the coming months is population. The elimination of demographic targets in the new Five-Year Development Plan may signal a significant retreat from past emphasis on reduced demographic growth. Considering that the growth of the labor force far exceeds the rate of job creation, this would be regrettable.

Beyond the immediate policy issues of interest to AID which arise naturally in program development, certain macro-economic policy issues have been identified in the analysis contained in the Annex that have a direct bearing on the employment-generating impacts of our assistance strategy. The policy areas of greatest concern relate to 1) the foreign exchange rate, 2) agricultural prices, and 3) the minimum wage law.

1) The foreign exchange rate. An overvalued peso has implications for the entire CDSS portfolio, since it distorts price relationships in favor of the import-dependent industrial sector and capital-intensive producers at the expense of the more export-oriented agricultural sector and labor-intensive producers. On this issue we need to encourage the GOP to give full consideration to the relative costs and benefits to the economy as a whole of maintaining an overvalued peso exchange rate versus allowing faster real depreciation.

2) Agricultural prices. Agricultural product prices have been declining in real terms, while farm input prices have been increasing. This adversely affects the profitability of farming and reduces incentives to invest in more productive technology in rainfed, as well as other farming systems. Government interventions to control agricultural prices for the benefit of consumers and/or to nationalize production and marketing of plantation crops reduce the returns to producers. For example, the coconut levy, designed in part to cover the costs of improvements in production and domestic price stabilization in order to address a basic structural problem, is an indirect tax on coconut producers. The vast majority of these producers are small-scale farmers earning very meager incomes. The GOP has recently reduced the levy substantially, in recognition of its regressive nature; but it still represents a flat 21 percent tax on the gross value of production (and much more on the producers' net income). Coconut farmers represent a major target group under the Rainfed Resource Development (RRD) Program proposed in the strategy. The Farming Systems component of the package is directly aimed at increasing the income of coconut farmers in the regions of Bicol and Eastern Visayas. As we move to implement the RRD Program we need to monitor carefully the impact of

the levy on the coconut farmers' productivity and income and its multiplier effects on demand in the rural economy. The ultimate success of the Rainfed Resource Development program will depend heavily on more favorable prices in general for farm products in rainfed areas.

3. Minimum Wage. The application of the minimum wage laws in rural areas is of concern in the context of our assistance to rural private enterprise development. In a labor-surplus economy like the Philippines, such legislation serves to bid wages up artificially in the modern, organized sector and reduce productive employment in the aggregate. Some adjustment to the legal minimum wage requirements in rural areas would probably be appropriate.

There are two other policy areas identified in the Annex that are less directly related to our strategy, but which are appropriate for discussion with other donors in view of their questionable impact on employment. The possibility of premature mechanization of sugar production, made attractive by subsidized credit and distorted price relationships, is an issue in a current GOP proposal for donor financing of tractors for the sugar industry. Also as the 11 major and other industrial projects are proposed for private sector or multilateral donor support, it is important that we encourage careful assessment of employment effects per unit of investment cost before endorsing IBRD or ADB approval of financing for any of these projects.

Aside from raising macro-economic policy issues, there are programmatic ways USAID can bolster the government's efforts to relieve its balance of payments and inflationary problems and to restructure the economy to provide more productive employment. AID can continue to utilize DA and ESF funds to support efforts in the following areas:

- a. The experimental development of non-conventional, domestic sources of energy.
- b. Research to develop and apply more profitable farm technology for rainfed and upland areas to improve agricultural productivity, including research to develop more commercial (including energy) uses for key crops.
- c. Family planning efforts to help reduce the future demand for jobs.
- d. Generation of more off-farm employment in rural areas.
- e. Better local government resource mobilization and national government review of related policies.

To help reduce the inflationary effects of deficit spending, AID can also seek ways to make more of its project contributions available up front instead of toward the end of its projects and contribute an average of 60 percent to total project cost. The Mission does not, however, see the need for more fast disbursing, non-project assistance for balance of payment support purposes. Moreover, the Mission does not believe it could accomplish much by adopting the general IMF policy conditions and using AID non-project assistance to support the IMF stabilization program. In fact, one result of the ready availability to the Philippines of large amounts of official and private foreign credit has been to reduce the urgency of certain policy reforms that might have contributed to a more rapid adjustment to changing external economic conditions and a more rapid alleviation of internal problems of employment and poverty affecting large numbers of people.

## PART II - STRATEGY

### A. Overall Assistance Strategy

The Mission's assistance strategy is aimed at generating more productive

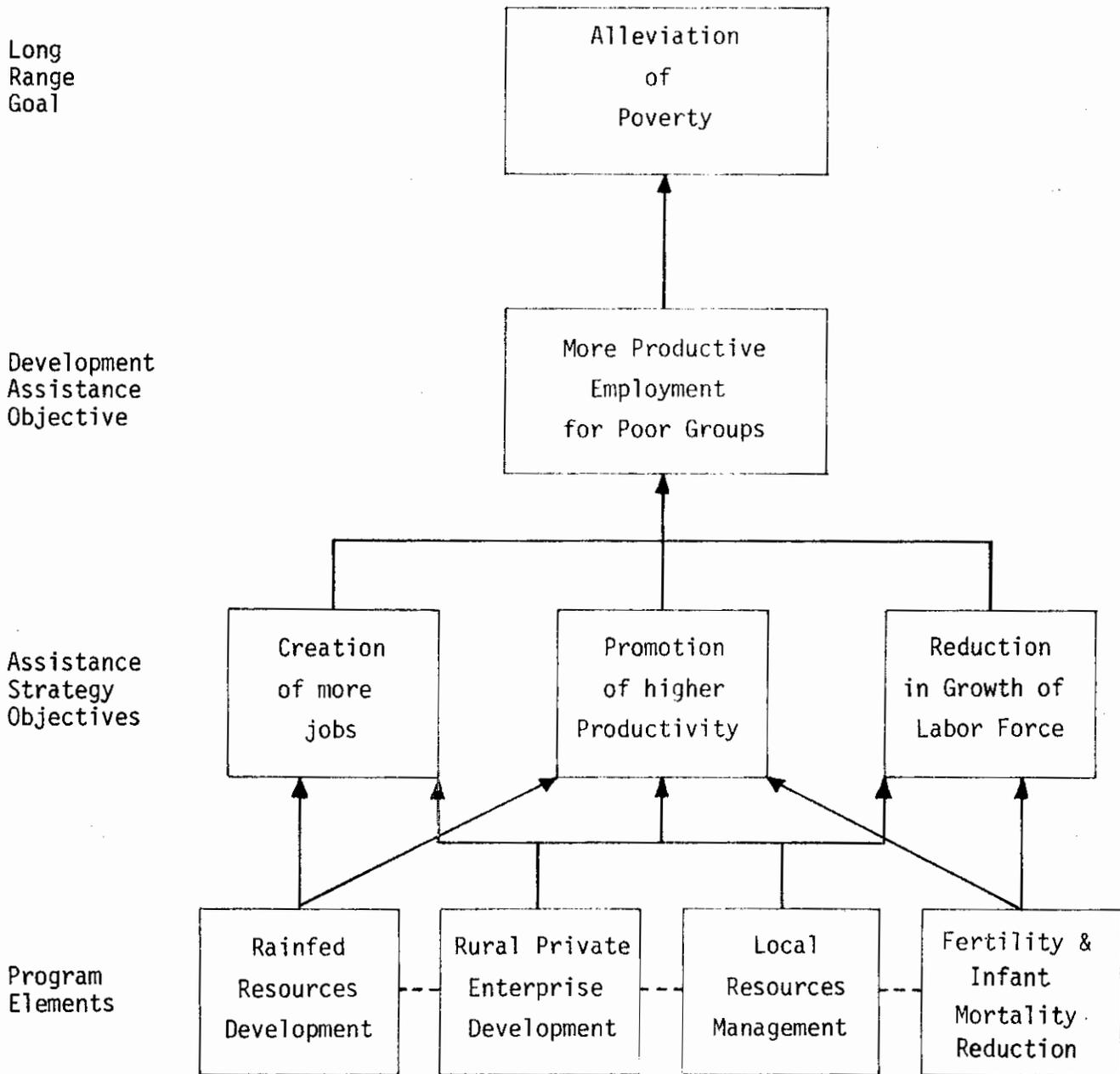
rural employment in selected regions for target groups who represent a majority of rural Filipinos.

Our analyses of poverty identify the landless agricultural workers, small-scale farmers in rainfed, especially upland areas, and traditional fishermen as the most appropriate target groups for U.S. assistance by virtue of their large numbers, high incidence of poverty, and comparative neglect in the past. While these groups differ greatly in their resources, constraints, and poverty levels, underemployment is the most critical problem they face in common. It stems from rising population pressures on an eroding resource base and saturated agricultural employment in the face of retarded industrial employment growth, because of the urban concentration and capital intensity of Philippine industry. Expanding the opportunities for more productive employment is the crux of the development problem in the Philippines.

Figure 1 provides a schematic of USAID's strategy as it has evolved since last year's CDSS. The main change is a clearer definition of the assistance strategy objectives that explicitly recognizes that more productive employment is a function of jobs, productivity, and the growth of the labor force. Creating jobs and increasing productivity represent the numerator, while reducing the growth of the labor force is the denominator in the employment equation.

The strategy encompasses four interdependent program elements that are designed to operate on both terms in the equation to achieve maximum impact on employment, in the short as well as long run. Thus the strategy entails assistance efforts a) to increase agricultural productivity in rainfed and coastal areas through improved natural resource management and diversified technologies adapted to local needs, 2) to develop small- and

FIGURE 1  
USAID ASSISTANCE STRATEGY



medium-scale enterprises in rural areas to capitalize upon available labor (including women) and rising local demand; 3) to improve local government capacities to mobilize and manage private and public resources in ways that promote more productive employment in their locality; and 4) to reduce fertility and infant mortality through an extensive family planning program and innovative basic health care delivery and finance. The strategy acknowledges that the diversity of livelihood strategies pursued by households in each group requires differential responses which traditional centralized bureaucratic institutions are seldom able to provide. Thus all four strategy elements envisage a major effort to assist the GOP to decentralize the administration of development programs and build the capacities of key institutions to undertake new tasks in support of self-reliant, self-sustaining development processes.

USAID's concentrated assistance focus on Regions V (Bicol), VI (Western Visayas), VIII (Eastern Visayas), and in time I (Ilocos) and II (Cagayan Valley) stems from a recognition of the magnitude and diverse, locally-specific nature of poverty in the Philippines in relation to our assistance resource availabilities.

In pursuing this strategy our comparative advantage lies in playing the role of a catalyst and risk taker. Given the level of resources at our disposal, we cannot compete financially with other major donors in replicating large-scale programs. But as a principal innovator working with the GOP to develop replicable approaches, we can play a unique and vital role in helping to channel development benefits more directly to the poor and in creating favorable conditions for attracting other donor resources to assist the GOP replicate successful programs. Thus our strategy centers on innovative program approaches aimed at assisting the

GOP improve resources allocation and performance in employment generation.

ESF program development (spanning FY 1980-84) has followed a track generally independent from this overall assistance strategy, in line with the program's original rationale springing from the 1979 amended Bases Agreement. That Agreement broadly indicated that ESF would be used for assisting the government to improve the socio-economic conditions primarily in the areas surrounding the bases, including the reverted lands. The program also responded initially to the imperatives of developing quick disbursing projects and more recently to the priorities established by the President's Management Advisory Committee (MAC). The review of the amended Bases Agreement, scheduled for January 1984, will determine the shape of any new ESF program beyond 1984 and its relationship to the strategy. Over the coming year we will continue exploring various scenarios.

Our experience with the current ESF program indicates an increasing convergence between our DA and ESF activities. This is not really surprising considering that the ESF projects are directed at achieving basic human needs; that they are identified from a common set of problems affecting the Philippines; that the Management Advisory Committee's Secretariat staff has adopted a number of CDSS concepts; and that USAID design staff working on ESF are also interested in CDSS objectives and strategy. Indeed the MAC Secretariat's emphasis on livelihood can be readily equated to the CDSS objectives of poverty alleviation through productive employment generation. The congruence is graphically illustrated by the following objectives which were formulated by the MAC to serve as guidelines in developing ESF projects:

- 1) to strengthen local institutions in order to involve the poor majority;

- 2) to increase and diversify agricultural production;
- 3) to integrate agricultural, industrial, and commercial development;
- 4) to disperse local infrastructure and increase access of poor to basic services and facilities;
- 5) to increase employment opportunities and improve income distribution;  
and
- 6) to strengthen or develop linkages between rural and urban centers in the regional spatial system.

The area of concentration of ESF activities around the bases actually involves a sizeable impact area, leading the program to a broader development focus on Region III. The CDSS regions are being included in some ESF programs with nationwide coverage like the Livelihood Development Fund.

Furthermore, several emerging ESF projects relate conceptually or organizationally to CDSS program elements. For example, the ESF Municipal Development Fund is similar to the DA Local Resources Management project insofar as it will support local governments in initiating development activities, although different local governments will be involved. Possible support for provincial capital investment programs in Region III would also stress local initiatives. Likewise, the energy component of the ESF Livelihood Development Fund supports the general objectives of the Rainfed Resource Development component of the strategy. To be sure, significant differences remain. The point, however, is that over the five-year horizon of this CDSS we expect our assistance strategy to evolve, taking explicit account of the resources and opportunities offered by ESF.

B. Summary of Program Strategies

1. Rainfed Resources Development (RRD)

In evolving a substrategy for this program element, the Mission has concluded that efforts to generate productive employment, at least for the near term, must be built around increasing the ability of the target groups to make the most productive, yet sustained use of the rainfed and coastal resources on which they depend for their livelihoods. Not only does this approach promise to alleviate the underemployment problem, but it can also contribute to assuring the country's food supply and even offer alternative sources of energy. At present, the productivity of these resources, far from increasing, is deteriorating at a dangerous rate. The damage results from both commercial users seeking short-term profits and the rural poor, who have been forced by growing population pressure to adopt strategies that threaten the continued productivity of the resource base.

To reverse this trend a national program of natural resource management is necessary, including action at the local, regional and national levels and participation of both the public and private sectors. Design and implementation of such a program require that there exist a broad consensus on the nature of the problem, proven methodologies for application at the local level, institutions capable of supporting this local action, and availability of financial and other resources needed for implementation at all levels.

The Philippines at present cannot fully meet any of these requirements. Concern over the deterioration of the rainfed and coastal resource base is growing, but the nature and extent of the problem are not adequately documented, nor is there any broad agreement on the need for action. Some

models have been tested at the local level, with assistance from AID and others, but a great deal of additional work is needed to identify the community-level building blocks for a national program. National institutions continue to focus on ever-increasing exploitation of the natural resource base by the commercial users rather than on supporting management at the local level for the benefit of all users, poverty group members as well as large-scale firms. The international donors stand ready to commit substantial resources to the problem, but a suitable program for external financing has not yet been developed. In this situation, premature funding of conventional programs through agencies oriented toward increased exploitation might well worsen rather than alleviate the problem.

The first phase of USAID's Rainfed Resources Development Program (RRDP) begins to address these problems and aims to lay a foundation for a national program of resource management four to five years hence.

Phase I includes four components--Natural Resources Management (FY 82), Farming Systems Development (FY 81 and FY 83), Agro-forestation Improvement (FY 83), and Coastal Zone Management (FY 84 or 85). The last three components are designed to develop and test models for sound resource management at the local level in one of the three basic agro-climatic zones (respectively, the rainfed agricultural areas, the uplands, and the seacoast). These AID-assisted projects will operate primarily with private groups at the community level, conducting a range of site-specific activities. The site-specific activities are justified in their own right and should make a significant contribution to resource management in the localities involved. More importantly for the development of the total program, they will also provide a "tool box" of workable approaches

suitable for broad application across a wide range of local conditions.

The Natural Resource Management Project is designed to provide a mechanism at the national level that will collect and synthesize the information generated from site-specific activities -- both AID-sponsored and others -- so that it can be used to design and implement a larger-scale program. In addition, information on the nature and extent of the resource problem will be collected and disseminated at the national level to build a consensus on the need for action and what that action should be. In some cases, basic research will be needed to produce this information and to provide the foundation for development of additional approaches for community-level testing. Finally, these disparate elements will be combined into a national program that can be implemented, with donor assistance, within a ten-year period.

In structuring USAID's Phase I assistance program, we have separated the policy-related and evaluation activities at the national level from the effort to develop workable approaches at the local level. While the activities at the national and local levels are clearly part of the same program (and the same problem), the natural resource management process is not sufficiently advanced nor the roles of responsible agencies sufficiently defined for an integrated approach to work at this stage.

The most active agencies to date have been the national line ministries, i.e. the Ministry of Agriculture in the case of the low-lying rainfed areas, the Ministry of Natural Resources' Bureau of Forest Development (BFD) in the upland areas, and MNR's Bureau of Fisheries and Aquatic Resources (BFAR) in the coastal zones. Each of these agencies has differing perceptions of the problem. Local government has thus far played a much less active role, although municipal governments are involved

in near-shore fisheries management and in some reforestation. To date, private markets and organizations have failed to provide the necessary mediating role between the individual resource users and the needs of the economy as a whole. User groups have not formed, partly because the users are too heterogeneous to cooperate easily. The remote, dispersed location of upland and coastal resources has also inhibited the action of private groups, whether entrepreneurs intent on selling inputs (or buying goods produced) or private voluntary organizations with other aims. Hence, the goal of the Phase I program will be to develop understanding and to establish working relationships among the diverse actors in the system sufficient to permit a more integrated approach to natural resource management in the second phase. Program activities in Phase II are, therefore, expected to cut across the conceptual borders established in the design of Phase I projects. In particular, the Phase II program will attempt to tie national policy-making more closely to the definition and meeting of needs at the local level.

The long-term nature of the natural resources management problem requires that such a program be based on the principle of community management. Because the national government's activities are currently oriented toward public control rather than toward support of private sector community programs, it is expected that a program based on local management will require evolving institutional changes at the national, regional, and provincial levels. The experience of the National Irrigation Administration with its program to assist communally-managed irrigation systems provides guidance as to how these changes might be accomplished, but the magnitude of this task should not be underestimated. It would be unrealistic to expect the program to "solve" the resource

management problem in the Philippines, any more than the developed nations have "solved" their resource problems, but it should be possible to make an honest start.

The four projects supported by the USAID Rainfed Resources Development Program are described extensively in documents being submitted to AID/W for review in February or in others already submitted. The Farming Systems Development Project-Eastern Visayas is described in the project paper approved in FY 81. Planning for the other three projects is somewhat less detailed at this time, since project papers are not scheduled for completion until mid-FY 82 in the case of NRM and FY 83 or later in the case of AFI and CZM. The projects are briefly described below.

Natural Resource Management (NRM). The Natural Resources Management Project will provide the vital, overarching connection between the three site-specific projects operating at the local level and the policy-making process at the national level. It will assist the GOP to establish informal working groups in each of the line agencies involved in the site-specific projects. These working groups will monitor the local activities and identify the changes needed in national policies and procedures to carry out such activities on a larger scale. For example, we already know that current pricing and financial policies are biased against agriculture in general and rainfed agriculture in particular and that research and extension in support of rainfed agriculture are relatively weak.<sup>1/</sup> NRM will also a) support development of a Phase II program suitable for external donor assistance through a program of research to determine the most appropriate approaches to natural resources problems and b) develop improved technologies for late on-site testing.

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<sup>1/</sup> Cristina David, Analysis of Agricultural Policies in the Philippines (Draft), January, 1982.

The three-site specific projects will generate extensive information on the nature of the problem, possible approaches for dealing with it, and alternative institutional structures for implementation. In order to ensure that the information thus obtained, itself a scarce resource, is effectively utilized, it will be necessary to organize national-level monitoring and evaluation of the rainfed resources program and other pilot efforts. None of the individual agencies acting alone is likely to be able to carry out the critical functions of synthesizing the results from the various programs, modifying national resource use policy, and planning future actions to improve resource management. These functions, vital to the success of the Rainfed Resources Development Program, will be assisted through the NRM Project. No other donor is addressing the broader natural resource problem directly. This project is very much in keeping with our role as innovator and catalyst.

Farming Systems Development -- Eastern Visayas and Bicol. The Farming Systems Development (FSD) Project will work with the small farmers in low-lying and upland rainfed areas to develop more productive farming systems. The ongoing FSD-Eastern Visayas component departs from previous approaches by taking a broader view of the farm system or individual farm enterprise than simply its potential for producing a single crop. It will work with farmers (mainly coconut and upland rice and corn producers) in a range of agro-climatic zones in Region VIII to gain an understanding of the total pattern of farm family resource use, including how these resources are used to grow commercial crops, cultivate backyard gardens, produce livestock and earn income from non-farm enterprises. It will then identify and test possible improvements in the system. It will work directly with the farmers on their own fields and homelots.

While such close involvement of the farmers is a central element in the theory of farming systems, research projects have in practice tended to follow a top-down strategy and not include farmers on the research team. The project will support the Ministry of Agriculture's recent policy of regionalization, which combines previously separate bureaus under the control of the MA Regional Director, by working through the regional office. Implementation of this policy is well advanced in Region VIII. In addition, FSD-EV will involve the regional agricultural college, VISCA, directly in project implementation, strengthening the link between the college and the Ministry at the local level.

Although some regions have a single strong agricultural university such as VISCA, others like Bicol do not. The Mission, based on a GOP request, proposes to amend FSD-EV to expand its scope to Region V, in order to test other institutional approaches and also to do the required site-specific farming systems research, using a consortium arrangement among several smaller colleges. Furthermore, while Bicol also has a large number of coconut farmers, the project will also have to adapt technologies to the needs of lowland rainfed rice farmers who represent another important group in this region. The broadened Farming Systems Development Project will thus be able to generate information on both specific technologies and workable institutional approaches to foster farmer involvement in resource management. This project output provides critical support to the achievement of the RRD program purposes. USAID will also be monitoring the IBRD-assisted KABSACA project in Region VI for lessons applicable to our farming systems activities in Regions V and VIII. We expect many of the site-specific farming systems technologies to be disseminated and adapted through the improved regional research

network assisted by the World Bank's Agricultural Support Services Project.

Agro-Forestation Improvement (AFI). The AFI Project will work directly with upland farmers to develop pilot land management systems that serve the joint purposes of increased productivity and income for this target group and also improved watershed management to achieve ecological stability. The project will build on pilot efforts in the Bicol (funded in part by AID) and in Antique Province (funded in part by Ford Foundation grants). Like the Farming Systems Development Project, AFI will not attempt to develop a single, universally acceptable technical package, but will instead identify workable elements of a total upland management system. The pilot activities have begun this process, testing a number of promising approaches including construction of semi-permanent terraces, replanting of deforested areas with productive trees, and establishment of local woodlots and fruit-tree nurseries. Initial projects have also explored approaches for providing incentives needed to bring about individual investment decisions more consistent with longer-term social concerns. Approaches tried to date have ranged from subsidies for family labor used for long-term projects -- and the loan of tools and the provision of seedlings directly to cooperating farmers -- to tenure reform. A variety of institutional strategies are being tried for organizing necessary support for farmer cooperators. The primary outputs of AFI will be a better understanding of how to address the disincentives to longer-term, sustainable resource use, as well as specific technologies and institutions to increase the productivity of upland areas. The lead implementing agency will be the Ministry of Natural Resources' Bureau of Forestry Development. The project will

mobilize farmer organizations and local government authorities who will provide the necessary long-term commitment for area development. The World Bank and the Asian Development Bank (ADB) are also showing increasing interest in this sector, but their plans are still tentative.

Coastal Zone Management (CZM). The resource management problem in the near-shore fisheries is technically the most challenging, because of the "commons" problem created by an open-access resource. At the same time, it is the problem for which the level of consensus on the need for action is currently the lowest, and for which the least experience with pilot approaches exists. Because of these problems, and because the environmental situation is more varied than in either of the other two agro-climatic areas, it will be necessary to start from a level substantially less advanced than in the FSD-EV and AFI. The project is likely to center around the following two activities: 1) a national survey of the current state of the fisheries resource in target areas such as Bicol and the Central Seas between Mindanao and Southern Luzon, and 2) a number of pilot efforts to identify workable intervention strategies for later testing on a wider basis. These pilot efforts are expected to be concentrated in one or more specifically identifiable locations within the CDSS regions, perhaps a semi-enclosed area such as a bay. Selection of such an area, where the population of both fish and fishermen is relatively stable, will greatly facilitate monitoring of the program's impact on fish stocks and target group incomes. Because understanding of the fisheries resource problem is still at an early stage, initial efforts will be channeled through the NRM Project. Subsequently, the CZM Project will first assist in developing a clearer definition of the problem and a consensus on the need for action and then support definition

of a more comprehensive plan of action in Phase II of the USAID Rainfed Resource assistance program. This approach contrasts dramatically with the many efforts of other donors aimed at increased exploitation of fisheries without regard to the productive limits of the marine ecosystem.

Discussion of the rainfed resources development strategy would be incomplete without mention of the Economic Support Fund activities planned for energy development under the Livelihood Development Fund. While these have not been designed explicitly as part of the RRD package, they are broadly supportive and consistent with the objectives of this program element. Three activities are planned, each of which supports the government's energy diversification strategy of substituting biomass-produced energy for petroleum-based production. The government plans to: a) develop a 200-MW of wood-fired power plants by 1988; b) substitute producer gas for diesel fuel in pumping systems, boats, vehicles, and other stationary power generators; and c) manufacture charcoal for household and industrial use. Each of these programs is supported by a tree production program which will replant and farm denuded lands of marginal economic value.

In the case of the wood-fired power plants, each of the 70 planned plants will require up to 2000 hectares of land planted in fast-growing trees to support its fuel requirements. The planting and care of the farms will be undertaken by private associations of landless and upland farmers who are indigenous to the areas. These associations will be affiliated with local rural electrification cooperatives which will provide organizational, technical and financial support, and which will act as a ready market for the output of the tree farms.

In the case of the producer gas program, 495 existing irrigation associations which depend on diesel-powered pump systems will convert to diesel systems incorporating wood-fired gasifiers. The wood to fuel the gasifiers will be grown by the irrigation associations on nearby denuded lands suitable for wood production. The program will reforest about 6,500 hectares.

The government also plans to reforest up to 76,000 hectares and use the wood production to produce charcoal for home use and rural industrial needs. To do so, associations are being formed; denuded lands are being leased to them; and tree planting should be underway by 1983. These activities in developing alternative energy sources will be introducing long-term sustainable approaches to upland resource management that will restore denuded upland areas and benefit upland farmers.

## 2. Rural Private Enterprise Development

Significant inroads in creating new employment opportunities, in contrast to making existing jobs more productive, will have to come in the long run from non-farm employment. Already farmers and fishermen and members of their families are turning to alternative employment, if only seasonally, in the informal or unorganized manufacturing and service sectors. More permanent jobs, however, are needed to absorb the rural labor force. Entrepreneurs, both large and small scale, will be the ones to determine the investments leading to the creation of such jobs throughout the rural economy, provided the investment climate is attractive. As agriculture becomes more productive, rural incomes will rise generating increased demand for locally-produced goods and services. As local entrepreneurs respond, the demand for labor in agribusiness and manufacturing should increase, relieving pressure on

agricultural employment and natural resources. Correcting current economic distortions and disincentives will be necessary to accelerate this process.

Mission plans for this program element are evolving in response to increased emphasis of both the American and Philippine Governments on the private sector as an essential actor in the development process. The Rural Enterprise Development Project (REDP), now at the PID stage, represents the Mission's first major effort in this area. It is a direct outgrowth of the FY 82 CDSS and reflects our early interest in private enterprise. This project is aimed at helping rural small- and medium-scale industries flourish, in recognition of the fact that long-run employment is heavily dependent on the rate and pattern of productivity increases in such industries.

Specifically, the project will work to develop effective systems that promote labor-intensive private enterprises in product lines with profit and growth potential within the CDSS regions. The project will support sub-projects directed at helping privately-owned and operated, non-farm enterprises (e.g. in manufacturing, processing, commerce, construction, and services) which are designed, approved, and implemented in the region. Responsibilities for overall management of the project would be assumed by the Ministry of Trade and Industry (MTI), with the Bureau for Small- and Medium-Industries (BSMI), through its regional offices, serving as the main implementing agency. A central aim of the project will be to involve local business associations and development foundations as active participants in project and policy and regulatory decisions. It will also help upgrade the institutional capabilities of the national and regional BSMI in supporting decentralized approaches

to rural enterprise development. To the greatest extent possible, project funds should be administered at the regional level by a joint government/private sector like the Industrial Sub-Committee of the Rural Development Council (RDC).

The project is being designed around four elements:

a) Policy and Institutional Development

The project is likely to support regional studies on the impacts of national and local governmental policies and administrative practices on smaller enterprises. In the past, labor-intensive industries have been discriminated against under the country's system of incentives, tariffs and regulations. Recent national policy and economic reforms have led to more effective industrial incentives which are raising the demand for labor in larger scale activities. The project hopes to encourage policy changes specific to small- and medium-scale industries. The Policy Bureau of MTI will be responsible for attempting to change identified policies within its jurisdiction and, on an experimental basis at the regional level, policies outside its jurisdiction. The Industrial Sub-Committee of the RDC would be responsible for working with its member agencies at both local and national levels to help implement necessary policy and administrative changes.

b) Market and Project Development

A consulting assistance package will be developed regionally and made available through BSMI to local business associations and firms to enable them to identify new market and product opportunities, upgrade design and production processes to meet new market demands, and to establish new market outlets. Project assistance is likely

to include market research, technical advice to upgrade production processes and products, training, and market promotion assistance. Funding may also be available for feasibility studies of support facilities (government or private sector) such as service centers, bonded warehouses, or improved transport systems. Consultant assistance might also be provided to individual firms or organizations to produce feasibility studies or package sub-project proposals for possible future funding under this project.

c) Experimental Finance

Institutional mechanisms and policies will be developed and tested to enable local financial institutions to increase their activities with small and medium business. For example, this may involve establishing venture capital company operations in the regions or working with rural banks to improve their commercial lending capabilities. It might also include activities to strengthen systems of trade credit or to involve selected commercial banks in developing innovative small business lending operations specific to products of the region. In addition, this component may seek to develop local institutional capabilities for mobilizing savings to invest in local business activities. With the recent advent of unified service banking in the Philippines, much attention will be given to local credit operations. This component can help determine the most appropriate local uni-banking activities for assisting small- and medium-scale industries.

d) Micro-Enterprise Assistance

This component would help expand an ongoing MTI program (the Metro Manila Micro-Industries Development Project) which organizes and finances service centers, enabling micro-firms to compete more

effectively with more organized firms and to avail of services usually provided only to larger enterprises. This innovative service center approach has been fairly successful in providing a larger return on investment for micro-entrepreneurs located in Manila. The project hopes to extend this approach to towns in the CDSS regions. This discrete project element is designed to link up with other project components to assure that the problems of the very small-scale entrepreneurs are addressed, since currently they provide a large share of the jobs available in rural areas. As their entrepreneurial skills develop and their businesses expand, they can contribute significantly to rural industrialization and employment.

Our regional analyses suggest that Region VI (Western Visayas) offers the most immediate prospects for early project success given higher agricultural production and industrial productivity rates (shown in Table I). While Regions V (Bicol) and VIII (Eastern Visayas) present a greater challenge, their low performance suggests a greater need to develop their internal markets to their full potential.

The World Bank and ADB have several projects aimed at small- and medium-scale industry development, but they reach mainly the larger firms in major urban areas. USAID's emphasis on the policy, institutional, and technology development dimensions as related to smaller-scale rural enterprise should help test and establish mechanisms that multilateral donors could then use to channel a greater portion of their resources to the lower end of the enterprise scale.

The current portfolio of ESF activities is principally directed at public enterprise development and offers little direct support to this program element. However, the improvements in municipal public

markets proposed under the ESF-sponsored Livelihood Development Fund should encourage local trading activities.

In addition to supporting private enterprise development, the Mission would like to find ways to encourage the private sector to undertake activities that will advance our assistance strategy. Of course, any activity will have to be profitable to attract private firms in any significant way. We have already had informal consultations with several businessmen to get some early indication of the potentials and constraints involved in such a relationship. We now need an in-depth assessment to define more clearly our options. We will be developing a scope of work for such a study in the next few months and requesting PDS funding. We expect to direct our greatest efforts in this area toward domestic firms (either Philippine or U.S. affiliates) who can support our strategy. U.S. firms are well represented in the Philippines, where U.S. investment levels are quite high compared to other developing countries and U.S.-Philippine business relations are well established as a result of historical ties. We will also be alert to opportunities for stimulating increased U.S. investment and communicating these to the Trade Development Program, OPIC, and AID's newly created Private Enterprise Bureau, which have the expertise and resources, for example, to support feasibility studies and market research or provide investment guarantees. We will be especially interested in identifying investment opportunities in the program and geographic areas of CDSS concentration.

One possible way to provide added incentives to the private sector to support our strategy objectives is through a strategic use of PL 480 resources. We are beginning to explore the extent to which

Title I dollar loan repayments, local currency sales proceeds, and/or Title III could be used for this purpose. For example, perhaps the Cooley Loan Program (under Section 104(e)) could be activated or the proceeds from PL 480 commodity imports could be made available (in accordance with Section 109) through a domestic development bank to small- and medium-scale entrepreneurs in designated sectors (e.g. post harvest food handling and processing, renewable energy production). The major obstacles to such programming are the limited availability of Title I commodities for the Philippines and problems associated with usual marketing requirements. Nevertheless, we believe this option deserves serious consideration both within the Mission and in Washington.

3. Local Resources Management

Both our macro-economic and micro level poverty analyses underscore the importance of local resource mobilization and decentralized government action for effective programs to generate more productive employment.

The Local Resources Management (LRM) project, now in the design stage, will represent the Mission's main DA effort in this area in coming years. The project is designed to test, promote, and institutionalize local government programming processes responsive to the needs of poverty groups and areas within the CDSS regions. It proposes a major institution building effort, at provincial and municipal levels, to introduce more targetted approaches in development planning and more effective systems of revenue generation.

Project development is following an ambitious design process involving some 15 representatives from key national line agencies, selected provincial and municipal governments and eminent private and

academic institutions. The objective has been to build a broad consensus on the main features of the project before working out the full design details, in hopes of identifying and resolving major issues, facilitating project approval, and forging the relationships necessary for a smooth transition from design to implementation. Four components have now been identified as the basis for Project Paper preparation: 1) provincial strategy formulation, 2) local project development and implementation, 3) beneficiary participation development, and 4) local government finance.

The provincial strategy formulation components seeks to build upon the existing regional and provincial planning system. The regional planning system coordinated by NEDA is a recent innovation which remains to be fully operationalized. The process at the provincial level, so far, is largely an exercise in project identification following broad sectoral and spatial guidelines for a public investment plan primarily directed at general infrastructure improvement. There is a virtual absence of strategic thinking, minimal targetting on poverty groups, and limited priority setting in provincial planning as it relates to poverty alleviation. LRM aims to introduce a new way of thinking that explicitly considers how provinces can direct development resources to selected target groups (e.g. landless sugar workers in the province of Negros Occidental or marginal fishermen in Antique Province). This will require enhancing the capacities of selected provincial staffs to: a) define and manage a cost-effective and relevant research program to understand the problems and potentials of major target groups found in the selected provinces; and b) develop provincial strategies for addressing the specific needs of target groups selected for concerted effort. In support of provincially-sponsored research, the project will encourage utilization of appropriate research

institutions found within the region as appropriate and a more rational use of available statistical and analytical information. LRM will be especially concerned with developing appropriate planning approaches which can translate research findings and staff analysis into sensible provincial strategies for assisting selected target groups, given available resources and local priorities.

Under the second component, LRM will provide technical and financial support to assist provinces develop and implement provincial and municipal sponsored sub-projects in support of RDC approved strategies. The sub-projects will be relatively small-scale infrastructure, public enterprise, and municipal level beneficiary-managed activities. LRM will encourage cooperation with private groups including PVOs in the design and implementation of sub-projects. Project feasibility assessment and implementation management are two areas where provincial and especially municipal capacities remain relatively weak, which LRM will address through regionally sponsored training.

Recognizing the value as well as the difficulty of maximizing beneficiary participation in local project identification, feasibility appraisal, and implementation, LRM plans under the third component to develop and test models for organizing beneficiaries in selected rural municipalities, working with local governments. Proven approaches can then be incorporated in provincial and municipal sub-project development and implementation.

The local government finance component recognizes that a critical constraint to locally-initiated development activities is the lack of resources available to municipal and, to a lesser degree, provincial government. To a large extent, financial resource limitations are a

function of centralized budgeting procedures, restrictive credit financing, and poor tax performance. LRM proposes to address this constraint by a) sponsoring policy analysis and dialogue on policies affecting local government finance, b) exploring various local government credit-financing schemes, and c) supporting provincial and municipal staff training in such fields as public enterprise management, fiscal planning and management, tax collection and records management, and the like. LRM will seek to strengthen and help streamline the regional budgeting process so as to increase local influence over budget allocations. It also plans to reward provinces showing improved tax performance through the application of an allocation formula for LRM sub-project funding that takes this factor into account.

The project does not envisage creating new governmental organizations but rather working through existing structures and systems to strengthen administrative capacities. Regions and provinces will be phased in as experience is accumulated, operational models are field-tested, and the capacity to provide effective technical and training backstopping is developed.

NEDA will serve as the lead agency with the support of the Ministry of Local Government, Ministry of Budget, Ministry of Finance, Ministry of Human Settlements, and the Philippine Institute for Development Studies. Actual implementation of the project will be by the Regional Development Councils and the provinces and municipalities. Several Philippine academic and private institutions, including private voluntary organizations, are expected to serve as resource institutions to the project.

By tapping institutional networks and promoting processes which permit flexible responses to local problems, the project envisages improved local resource mobilization and management for the alleviation of poverty. It directly complements long-standing World Bank efforts in regional development and national/regional resource mobilization and allocation.

There are two ESF activities that are directly related to this program element. The Municipal Development Fund (MDF) approved in August 1981 is designed to enhance the capabilities of selected municipalities and cities (primarily those most affected by U.S. facilities) to manage resources in carrying out locally-established priorities. MDF is focussing attention on building improved administrative capacities as well as project development and management capabilities, while financing infrastructure development (e.g. roads, bridges, flood control) and public enterprises (e.g. markets, slaughterhouses, and hospitals).

The second related activity is the public market component of the Livelihood Development Fund, now being designed, which will establish a credit program through government banks to provide construction financing to qualifying cities and larger municipalities for the upgrading of their public markets. In addition to mobilizing resources for public market construction, this project should help ensure that at least sufficient revenues are generated to cover capital and operating costs. It may also help encourage small-scale private enterprise development by improving market outlets.

The DA and ESF activities under this program element are quite similar in many respects, but addressed to different local governments and in most cases different regions. We expect to share experiences in implementation

to maximize complementarities and build upon particularly successful approaches developed in each project for the benefit of the others.

#### 4. Fertility/Infant Mortality Reduction

Success in the other three program elements is inescapably tied to the rate of growth in the labor force. The growth rate averaged 3.6 percent during the mid-70's with over 500,000 new workers entering the labor force each year. By 1990 the number of new entrants is estimated to reach 800,000, assuming a lower long-run growth rate of 3.4 percent. Furthermore, new workers are entering an already labor-surplus economy. Yet, the number of new jobs created in the industrial sector, for example, averaged only 85,000 in the mid-70's.<sup>1/</sup> Continued decline of fertility by tempering the growth of the labor force will significantly improve the employment prospects for the next generation of Filipinos and make possible real gains in productive employment.

Following a decade of heavy involvement in vertical population and nutrition programs, the Mission is evolving a new strategy for this program element. While we will continue to give population our top priority, our analysis, experience, and the stage of development of this sector in the Philippines suggest that selective primary health care is the most appropriate, most cost-effective vehicle for delivery of services to reduce fertility, as well as infant mortality, in this country.

Our strategy over the FY 84-87 planning period is focused on the Primary Health Care Financing Project, a PID for which is now in Washington, and on continued support to selective population program activities. Of

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<sup>1/</sup> FY 82 CDSS, p. 14 and Highlights of Recent Economic Performance in the Philippines, (11/07/79), Table 21. Industrial employment growth has probably improved during the last few years, but comparable data are not available.

the three projects AID currently supports in the population, health, and nutrition sector, two terminate in 1983 -- the PUSH and Bicol Integrated Health, Nutrition, and Population projects -- and one in 1985 -- Population Planning III. AID dollar support for the National Nutrition Program came to an end in September 1981, and there are no plans for continued support for PUSH and Bicol IHNP per se beyond 1983. AID has clearly stated that it will not provide for the recurrent costs of population outreach efforts after 1985. However, we do intend to continue to support selective population activities in view of the importance we attach to reducing fertility and to insure that strong population program support is available to whatever restructured field service may evolve from the Primary Health Care Financing Project. At this stage in our thinking, our support would be used to finance contraceptives, information and education activities, innovative community participation projects, and some research and technical assistance. This support will complement and strengthen the priority strategy intervention, the Primary Health Care Financing Project, which we view as a means of assisting the government to test on a regional basis a model service delivery system for fertility and mortality control after 1985.

The significant expansion of health, population, and nutrition services over the past decade has occurred in a relatively unplanned and uncoordinated manner as the government found itself responding to rapidly changing priorities in the sector and to an increasing volume of demands, especially from the rural population. The reasons for this parallel growth of services are complex, but simply stated the government was unwilling to wait for the full development of a rural health services delivery system before proceeding to provide family planning and nutrition

services to the rural population. AID and other donor agencies participated actively in these decisions. The result is a complicated administrative situation in which three separate agencies -- the Ministry of Health (MOH), the Commission on Population (POPCOM), and the National Nutrition Council (NNC) -- maintain separate and somewhat independent service delivery systems, from the national to the barangay level. At that level, services are normally provided by volunteer or semi-volunteer workers. In addition, there are several, more localized government-supported PHC-related service delivery programs; a substantial network of private and commercial clinics, hospitals, and pharmacies; and an active traditional sector.

There is widespread agreement today that a consolidation and "rationalization" of these services is desirable for both technical and financial reasons. On the technical side, resources are presently concentrated in cities, towns, and other more accessible areas. Those with the greater means to pay have greater access to services. The poor and those living in remote areas remain underserved or unserved. Furthermore, the dependence of the outreach system on volunteer workers result in varying quality of services for those who do have access. On the financial side, the overlap and duplication in services delivery is not cost-effective, yet development and maintenance of a nationwide quality primary health care system is beyond the government's financial ability, especially given its desire to reduce dependence on foreign aid.

The Primary Health Care Financing Project is designed to increase the use of selected primary health care services and improve the long-term financial viability of the delivery system by testing alternative mechanisms to increase local cost support. For primary health care services to

produce the desired demographically significant results they must be of high enough quality that large numbers of people will use them. The project proposes to combine and appropriately modify the most important fertility and mortality reducing services in a manner that is less costly than the existing separate service delivery systems and yet at least as effective as these systems, such that overall cost-effectiveness of PHC services will improve. The project will emphasize such services as: family planning motivation and contraceptive supply to users; identification, early care and referral of upper respiratory infections; nutritional surveillance and encouragement of breastfeeding and good weaning practices; first aid; and parasite treatment and treatment of diarrhea.

The project will also develop and test mechanisms that will permit communities, where they are capable of doing so, to participate more actively in the financing of PHC services. The proposed system will establish paid multi-purpose barangay health workers (BHWs) in those poorest barangays which are not reached by the present PHC delivery system. The BHWs will be selected and paid by the barangay and will be held accountable to it. In more prosperous communities, mechanisms will be developed and tested for community financing of existing public and private providers of PHC services. Costs will be reduced by gradually consolidating the various support structures for the delivery of population outreach, nutrition, and basic health services, thereby freeing up funds for BHW support and improvements in the delivery system (e.g. training, higher salaries for doctors and nurses). How the consolidation of the service delivery support structures can be accomplished is an exceedingly complex technical and political issue that will require extensive discussion and negotiation within the government in the coming

months. Beyond promising cost-effectiveness, other advantages of the proposed modified system include increased coverage in the most remote barangays, reduced overlap of services and personnel by cutting back the number of village auxiliary workers, the synergistic effect of delivering a set of mutually reinforcing services, and increased worker motivation resulting from payment for services and community support.

The project sites have not yet been established, although considerable discussion with the government has taken place. The project might consider initially testing financing schemes in places where basic PHC services have been extended to the barangay level via paid workers. Panay Island (Region VI) and Bicol (Region V), where current AID projects have established paid PHC workers and support agencies have gained experience in their training and deployment, would be logical sites for initial experimentation with financing schemes and further training and deployment of workers into barangays not yet covered. The 1983 CDSS identifies Regions I and II for AID attention beginning in 1983 and 1984. Because those two regions are particularly deprived of barangay-level PHC services, the project is tentatively designed to train and deploy paid auxiliary workers in those two regions and to cover the recurrent costs by means of the schemes tested and refined in Regions V and VI. Of course, financing schemes will also be initiated in those Regions I and II municipalities that do not require auxiliaries.

### C. Supporting Programs

The Mission has several other ongoing programs that support CDSS objectives and program elements in various ways. These include: PL 480 Title II, PVO Co-Financing, Accelerated Impact, Participant Training, and a Pilot Law Library Grant.

PL 480 Title II

The Title II Program broadly supports the CDSS through positive nutritional and income transfer effects on the poor. Given the decision to phase out the PL 480 Title II Program over the next five years, the Mission does not plan to integrate the existing program into its strategy. Nonetheless, during the phasedown the program will continue to strive for better targetting of the malnourished within recipient categories. We also might consider phasedown on a regional basis, with phase out of the CDSS regions coming last. In any event, Title II resources for the remainder of the program will be used in the manner most consistent with Food for Peace objectives, with the recent evaluation findings, and with the requirements of an orderly and minimally disruptive phase over.

The voluntary agencies have been working with their government counterparts on a more developed and detailed phasedown plan which should be available in March before the submission of the next AER's. The VolAg's are currently reviewing with their New York headquarters and with their GOP counterparts the staff, logistical, and budgetary implications of the phasedown on their programs. The initial years of the phasedown will mean more profound changes for the CARE program than for CRS'. CRS will continue to concentrate on its MCH activities, phasing out centers that can be graduated from the program and eliminating centers that are least effective. CARE will have the more difficult task of balancing between reductions in MCH and school feeding. The outcome of these ongoing reviews will dictate the specifics of phasedown for each VolAg. It is understood that all revised phaseout plans must be a) within the levels already set by AID/W, b) generally consistent with earlier program guidance, and c) approved by the Interagency Committee.

#### PVO Co-Financing

This program includes an ongoing Phase I and a proposed Phase II Fund for small-scale development projects sponsored by U.S. and indigenous private voluntary organizations. Grants are made to PVOs for up to 75 percent of project cost for activities, many of which relate directly to CDSS program elements and/or are implemented in CDSS regions. For example, existing grants have gone to reforestation activities in Region II, to crop diversification in coconut areas of Sorsogon Province (Bicol), and to integrated marine and agro-forestry in several coastal areas. Under this program PVOs provide valuable technical and financial resources that complement government development resources while addressing locally-identified needs through close collaboration with target beneficiaries.

#### Accelerated Impact Program

This program provides small grants to Peace Corps Volunteers in support of development activities in the communities they serve. Thus, local self-help efforts are encouraged by combining AID resources with the Volunteers' knowledge of local conditions and established working relations at the barangay level.

#### Participant Training

The ongoing and proposed Participant Training projects are designed to increase managerial and technical capacities in areas and institutions not directly related to USAID-funded projects, but where training is necessary in support of GOP/AID development strategy objectives and for which funding is not otherwise available. This type of project is especially useful as the CDSS strategy takes us into new areas where projects have not yet been designed, but training needs are already evident.

### Pilot Law Library Grant

This discrete project consists of the establishment of five pilot law libraries in selected areas of the Philippines where lawyers in private practice, judges, fiscals, other government officials and the public can consult the law. The pilot law libraries are intended to help improve the administration of justice and provide a ready information base for the development of law and the legal system itself. Recognizing the key role the law plays in such areas as land claims, labor rights, etc. which are so critical to our strategy, it is hoped this innovative activity will prove useful and can be replicated in localities that would support the CDSS.

## PART III - RESOURCES

### A. Portfolio Management

Implementation of the Mission's strategy has begun to alter significantly the character of the project portfolio. In managing the transition to CDSS-related activities, our assistance resources are increasingly being concentrated around the four program elements with fewer projects. By 1983 we will have reduced the total number of active projects from 34 in 1978 to 22, a decline of 35 percent. Over the same period total assistance resources will have increased by 31 percent to \$103.1 million, as a result of the growing importance of ESF in our resource flows. Meanwhile, total staffing will have gradually declined by 30 percent, from 206 in 1978 to an estimated 144 by the end of FY 1982 (see Table III).

### B. Indicative Planning Allocations

The Mission's strategy has been based until this year on an indicative planning level of \$95 million in DA for FY 87. Given that ESF levels remain undetermined beyond FY 84, we accept the Bureau's drastically reduced development assistance planning level of \$58 million, without prejudice to

Table III  
 USAID/PHILIPPINES  
 PORTFOLIO EVOLUTION  
 FY 1978 - 1982

	1978	1979	1980	1981	1982 (est)	1983 (est)	% Change 78-83 est.
Total Obligations in FY (\$000) Including ESF and PL 480	78,890	71,843	77,310	91,304	108,058	103,100	+31%
No. of Active Projects as of 9/30 of previous year	23	34	34	33	32	28	
No. of New Starts in FY (+)	12	5	4	5	4	6	
No. of Projects Completed during FY (-)	1	5	5	6	8	12	
Total Active Projects	34	34	33	32	28	22	-35%
Total Staffing (US and FN DH)	206	181	173	156	144	144	-30%

what actual total assistance levels will be. Therefore, we do not propose to reexamine the validity of the strategy in terms of available resources. We would point out, however, that the near 50 percent cut in the PAPL represents a sizeable erosion in real terms of historical DA levels given current inflation rates, on top of the more than 50 percent erosion that has already occurred since the mid-70's.

Tables IV and V indicate the proposed allocation of assistance resources over the planning period by major funding account and CDSS program element, respectively.

TABLE IV

# INDICATIVE PLANNING ALLOCATIONS FOR FY 1983-1987

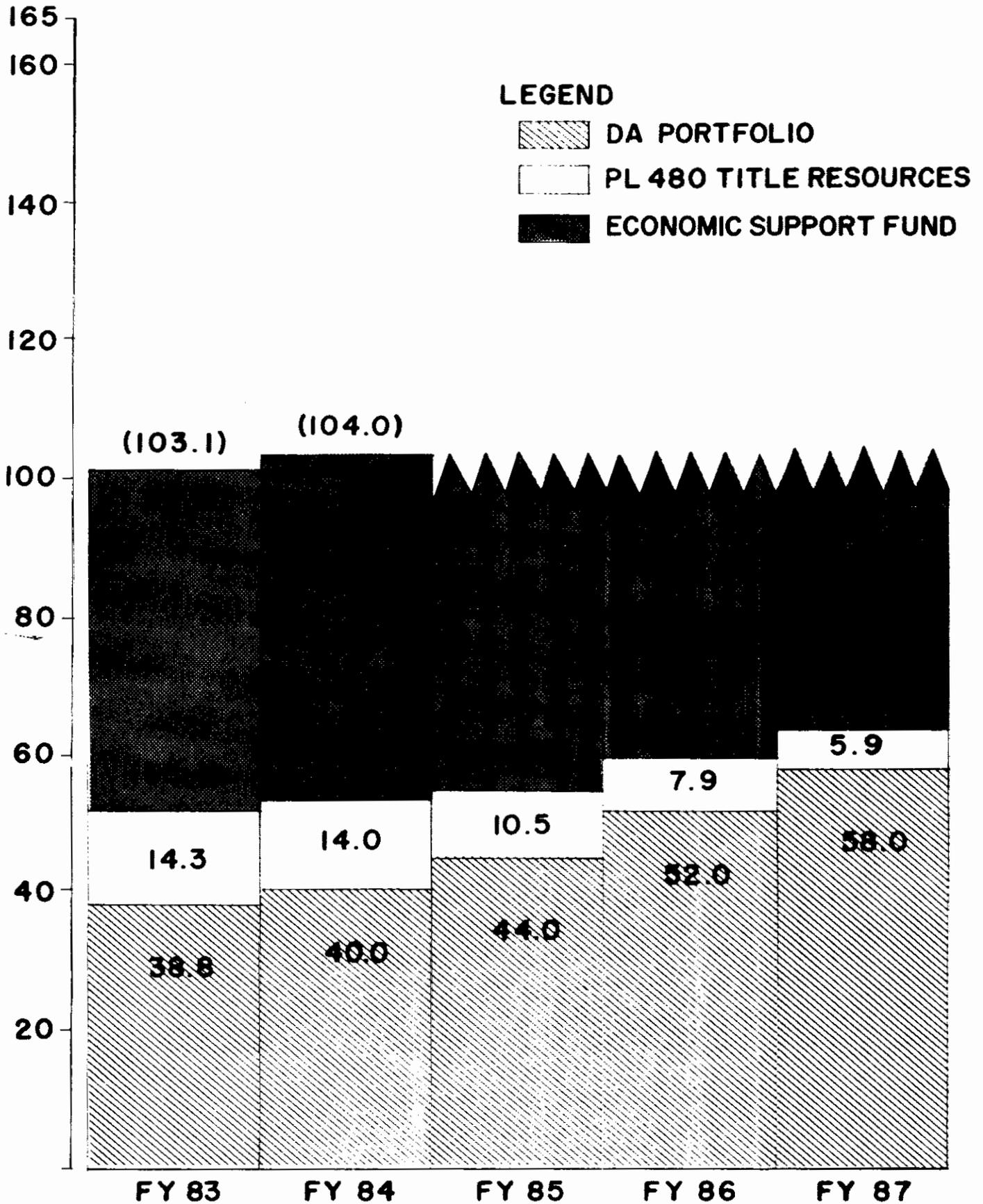


TABLE V  
DA RESOURCE ALLOCATION BY MAJOR PROGRAM ELEMENT  
(FY 83 - FY 87)

Program Elements	FY 83	FY 84	FY 85	FY 86	FY 87	TOTAL
1. RAINFED RESOURCES DEVELOPMENT	5,867 (15%)	2,593 (6%)	7,500 (17%)	10,000 (19%)	12,500 (22%)	38,460 (17%)
2. LOCAL RESOURCES MANAGEMENT	8,208 (21%)	10,392 (26%)	13,000 (30%)	13,000 (25%)	10,000 (17%)	54,600 (23%)
3. RURAL PVT ENTERPRISE DEVELOPMENT	5,500 (14%)	9,500 (24%)	7,500 (17%)	10,000 (19%)	12,500 (22%)	45,000 (19%)
4. FERTILITY AND INFANT MORTALITY REDUCTION	16,300 (42%)	14,515 (36%)	9,540 (22%)	7,500 (14%)	9,000 (16%)	56,855 (25%)
5. SUPPORTING PROGRAMS	2,925 (8%)	3,000 (8%)	3,000 (7%)	4,000 (8%)	4,000 (7%)	16,925 (7%)
6. AVAILABLE FOR NEW CDSS PROGRAMS	-	-	3,460 (8%)	7,500 (14%)	10,000 (17%)	20,960 (9%)
<b>T O T A L</b>	<b>38,800</b>	<b>40,000</b>	<b>44,000</b>	<b>52,000</b>	<b>58,000</b>	<b>232,800</b>

LIST OF ANALYSES AND REPORT  
IN SUPPORT OF PHILIPPINES CDSS

An Assessment of the Macroeconomic Policy Framework for Employment Generation in the Philippines, Dr. Richard Hooley, April 1981.

Philippines Balance of Payments and Domestic Price Stabilization, OD/PE/USAID, January 1982.

Review of Macro-Economic Policy Implications for CDSS, OD/PE/USAID, January 1982.

Poverty Profile of Western Visayas (Region VI), OD/P/USAID, January 1981.

Economic Profile of Western Visayas (Draft), OD/PE/USAID, January 1982.

Eastern Visayas Agricultural Profile and Assessment, ORAD/USAID, March 1981.

Macro-Economic Profile of Eastern Visayas, OD/PE/USAID, April 1981.

Preliminary Poverty Profile of Eastern Visayas (Draft), OD/P/USAID, October 1981.

Agricultural Profile and Assessment-Bicol V, OD/P/USAID, November 1981.

Economic Profile and Causes of Poverty in Bicol (Draft), OD/PE/USAID, October 1981.

Household Poverty Profile Bicol Region (Draft), OD/P/USAID, November 1981.

Summary of Proceedings - USAID-Sponsored Upland Hilly Development Workshop, ORAD/USAID, November 1980.

Summary of Proceedings - USAID-Sponsored Seminar Coastal Zone Management, ORAD/USAID, November 1981.

Analysis of Agricultural Policies in the Philippines (Draft), Dr. Cristina David, January 1982.

Upland Development for Energy Production - 3 Reports on Regions V, VI, and VIII, MADECOR, September 1981.

Assessment of Philippine Energy Problems and Impacts on Development (Draft), OD/E/USAID, January 1982.

Infant Mortality in the Philippines: Causes and Correlates, Dr. Sheila West, 1981

Outline of a Health, Population, and Nutrition Strategy for USAID in the Philippines, O/PHN/USAID, April 1981.

An Impact Assessment: Population Planning II, Drs. A Herrin and T. Bullum, April 1981.

Other Donor Assistance to the Philippines, OD/P/USAID, January 1982.

Macro-Economic Trends and Policy Implications

The Philippines faces a number of critical policy choices in restructuring its economy to overcome the distortions and structural rigidities arising from its dualistic economy and past import-substitution policies. Wise choices are essential if it is to achieve an accelerated and more equitable pattern of growth. What choices are made and how they are carried out will also determine the impact our assistance strategy ultimately has on generating more productive employment and improving the living standards of the rural majority.

The need to adjust to the sharp cyclical fluctuations in the world economy and to the country's declining terms of trade has made certain economic reforms all the more urgent while complicating the government's efforts to carry out others.<sup>1/</sup> There has been a permanent shift in the Philippines' terms of trade resulting from the rising prices of imported oil products and falling prices of traditional exports such as coconut, sugar, and copper. This, coupled with quantitative restrictions by the country's major trading partners on key exports, like textiles and shoes, has contributed to a chronic deficit in the current account of the balance of payments since 1974. The trade deficit in 1981 reached an estimated \$2.5 billion or 6.4 percent of GNP. At the same time, domestic trade, exchange rate, and monetary policies have encouraged private investment in highly capital-intensive, import-dependent industries. In turn, the infrastructure development projects of the public sector have required the importation of considerable

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<sup>1/</sup> For a detailed discussion see Philippine Balance of Payments and Domestic Price Stabilization, OD/PE-USAID, January 1982.

capital equipment and other inputs. These factors have made it more difficult to increase exports or reduce imports fast enough to close the growing trade deficit. They also generate strong resistance to a more rapid depreciation of the peso. Consequently, the deficits are being financed by heavy foreign borrowing from both official and private sources of credit. Foreign debt has reached 38 percent of Gross Domestic Product (GDP) and the debt service ratio is pushing 21 percent of export earnings, partly as a result of increased interest costs. Moreover, the trade deficits requiring loan financing are likely to increase as tariffs and import controls are reduced under the IBRD-assisted structural adjustment program, unless, among other things, the peso depreciates fast enough to help reduce imports and stimulate exports. Current government plans to encourage foreign loan financing of several major, capital-intensive industrial projects will, if carried through, also result in a substantial increase in foreign debt.

In 1979 and 1980 the previously moderate single-digit rate of inflation doubled to 17-18 percent annually. Cost-push factors, arising from higher energy prices and legal wage rate agreements in excess of productivity gains, temporarily exacerbated underlying conditions of excess demand resulting from deficit financing of public infrastructure investments. With the absence of further oil price increases in 1981, a tight monetary policy, and domestic economic slowdown, the rate of inflation was reduced to around 12 percent and is expected to moderate further in 1982. Given the government's ambitious infrastructure and industrialization program, deficit spending will continue to be an inflationary factor, however, unless government revenue generation efforts begin to show substantial further improvement. Total tax and non-tax revenue collections, for example, have averaged between 13 and 14 percent

of Gross National Product (GNP) in recent years, while expenditures have been higher.

The rate of gross domestic capital formation has accelerated over the past decade, attaining a level of 30.5 percent of GNP in 1980-1. But investment has outstripped domestic savings. Investors have turned increasingly to foreign borrowing despite continual government efforts to encourage more savings by raising interest rate ceilings. The continuing capital-intensive bias of private industrial investment has reduced the demand for labor relative to its growing supply, rendering labor increasingly underutilized and unproductive, and resulting in declining real wages. In addition, the investment climate, especially outside the major cities, has not been favorable enough to attract the level of private investment the government had hoped in support of its development plans.

To facilitate a more gradual adjustment to these problems, the IMF provided balance of payments support totalling SDR 410 million through 1980-81 under a Stand-by Arrangement, subject to satisfactory performance in meeting two quantitative macroeconomic criteria: a ceiling on net domestic assets of the banking system and a limit on foreign borrowing approvals. The banking ceiling was exceeded in May 1981, as banking system credit was substituted for non-bank institutional credit following a liquidity crisis brought on by a major financial scandal. There was no increase in total credit available to the economy, and the IMF agreed to a compensating increase in the bank asset ceiling. IMF had earlier agreed to higher foreign debt limits in 1981 to accommodate higher levels of planned investment in energy production and the 11 major industrial projects. Due to delays in preparing some of the proposed projects for approval and other factors such

as the decline in economic activity and investment, these limits were not expected to be reached. The ready availability of large amounts of official and private foreign debt, while facilitating a more gradual adjustment to balance of payments problems, has tended to reduce the urgency of certain policy reforms that might have contributed to a more rapid adjustment to changing external economic conditions and a more rapid alleviation of internal problems of employment and poverty affecting large numbers of people.

The IMF conditions are very macro in nature and are not designed to require adjustment in policies and programs affecting all the root causes of balance of payments and inflationary difficulties, although the credit is made available to permit more gradual and less disruptive adjustments in some of the relevant areas. Domestic credit expansion and foreign borrowing have been kept within reasonable bounds, and the World Bank-supported structural adjustment program is addressing the trade regime, financial incentives and industrial restructuring needs; but other causal factors are receiving less attention.

The root causes are of more concern to AID in the Philippines than the trade deficits or inflationary trends themselves, since they also directly affect employment, poverty, and the implementation of our programs. Rising costs of oil imports make it more difficult to finance other essential imports and sustain a satisfactory rate of economic growth. The government has taken steps to relieve this serious constraint by pricing energy at a high rate to encourage conservation and by undertaking an ambitious program to develop domestic energy resources.<sup>1/</sup>

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<sup>1/</sup> Assessment of Philippine Energy: Problems and Impacts on Development,  
(Draft) OD/E/USAID, January 1982, offers an overview of the energy sector.

The structural-adjustment program and accompanying reforms are designed to deal with some of the other underlying causes of the balance of payments problems while improving economic efficiency and productivity and the macro-economic environment for expanded employment in the long run.<sup>1/</sup> The reforms include: (a) extensive export promotion incentives, especially for the non-traditional export, labor-intensive industries; (b) restructuring of tariffs, increasing those on capital and intermediate goods and reducing those on final goods; (c) efficiency-oriented investment incentives and administrative reforms to remove present capital-intensive and urban biases; (d) industrial revitalization and liberalization of investment regulations to stimulate small- and medium-scale industry. The reform of the protectionist tariff structure and other import controls along with the abolition in 1981 of most interest rate ceilings should help to further reduce the import intensity of capital investment and production technology and encourage greater use of domestic inputs and labor, thus creating more employment. Despite the predictable opposition to these reforms from the affected parties, implementation is proceeding satisfactorily.<sup>2/</sup> Running counter to the employment-oriented goals of this program, however, are government plans to sponsor substantial investment in several large, capital-intensive projects without careful attention to their effects on employment and a legal minimum wage level higher than actual local wage rates, if enforced as part of government-sponsored programs for small firms.

Falling prices of primary commodities require that domestic production

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1/ Richard Hooley in Macroeconomic Policy Framework for Employment Generation in the Philippines, April 1981, provides a detailed discussion of these reforms and their probable effects.

2/ For a more detailed discussion of this point refer to Review of Macroeconomic Policies Affecting CDSS Concerns, OD/PE/USAID, January 1982.

technology, costs, and marketing arrangements be reassessed if production is to remain competitive and poverty among producers is to be alleviated. The protectionist tariff regime and the overvaluation of the peso have substantially reduced returns to agriculture, as well as to other labor-intensive activities, thus reducing employment and rural income. These negative effects are exacerbated by other pricing and tax policies, such as the heavy tax on coconut sales and low ceilings on other agricultural commodities.

While the GOP has recently reduced the coconut levy from P50 to P32 per 100 kilos of copra and placed it on a sliding scale pegged to international prices, it still represents a hefty 21 percent tax on the current millgate price of P150/100 kg. Since costs of harvesting and transport alone are substantial, the tax is an even higher percentage of the producer's net income. To place the entire burden of consumer subsidy and coconut industry rationalization, for which the levy was designed, on the backs of the relatively poor coconut farmers is regressive, especially as many of them are not likely to benefit from tree replantings for many years. Such investments would be more equitably funded from general government revenues, as were, for example, investments in rice irrigation systems, which benefitted the nation as a whole and some rice farmers, but certainly not all of them.

The fluctuating world market price of sugar in recent years, especially when viewed through an over-valued peso exchange rate, puts pressure on plantation owners to reduce costs. One of the options currently being proposed for donor funding is the mechanization of sugar plantation operations presently performed by more labor-intensive methods. This option, while financially attractive to the sugar planters, should be carefully assessed in social and economic terms, since subsidized, premature mechanization in this industry would displace laborers in a labor surplus market. Its

financial attractiveness arises from the over-valuation of the peso, the duty free importation of machinery, the subsidized interest rates available from a multilateral donor, and from relatively high minimum wage requirements for plantation workers.

Agricultural product prices are kept low, and in real terms have fallen, in an effort to favor consumers. With real input prices rising, producers are caught in a cost/price squeeze that hampers adoption of more productive technology in traditional farming systems.<sup>1/</sup> The adverse effects of these policies are amplified by the price distortions of the protectionist trade regime which, since it is designed to raise the prices of imported manufactured goods, skews the entire price matrix against agriculture, depressing production and income in the rural sector. Through the negative multiplier effects of depressed consumer demand, the adverse effects pervade the rural service and industrial sectors, as well. Likewise, the increasingly overvalued peso exchange rate favors the relatively inefficient import-dependent industries employing a small number of workers over the export-oriented agricultural and non-traditional manufacture producers, who employ a substantial percentage of the labor force.

Finally, while the performance has improved since the 1960's, its continued inadequacy makes it difficult for the government to provide advance peso counterpart funds. As a result, development projects are often delayed. Deficit financing is inflationary and must remain within narrow limits; so there is an urgent need for improvement in the equitable mobiliza-

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<sup>1/</sup> For more detailed discussion of agricultural pricing and other policies see Christina David, Analysis of Agricultural Policies in the Philippines, January, 1982.

tion and efficient utilization of tax and other local resources for development purposes at both national and local government levels.

Understanding these root causes suggests opportunities as well as challenges for helping the Government relieve balance of payments and price stabilization problems while simultaneously promoting employment and alleviating poverty.