

Country Development Strategy Statement

FY 1985



Philippines

January 1983

Agency for International Development
Washington, D.C. 20523

BEST AVAILABLE

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EMBASSY OF THE
UNITED STATES OF AMERICA
MANILA, PHILIPPINES

December 23, 1982

Mr. Charles W. Greenleaf, Jr.
Assistant Administrator for Asia
Agency for International Development
Room 6212 NS
Washington, D. C. 20523

Dear Mr. Greenleaf:

I am pleased to forward this year's update of USAID's existing Country Development Strategy Statement. It is a statement of the USAID's current and future plans for the Development Assistance Program, fully coordinated with the Country Team, and establishes the basis for the medium-term operations of our foreign assistance efforts here. I would like to add two thoughts to those contained in the document.

First, since the update is unclassified it deals only superficially with ESF. This is correct given the upcoming review of the Amended Bases Agreement. The decisions reached during the review will have a profound effect upon U.S.-Philippine assistance relationships. Therefore, the prudent approach in this document is not to attempt to second guess the outcome of the review but to realize that next year's CDSS will be greatly influenced by the review.

Second, the poorer provinces in which AID has concentrated its work (identified through early analysis for the CDSS) are also characterized by their security problems. The deteriorating economic situation has given impetus to those elements in the society most interested in radical social solutions. While this situation may make implementation of development projects more difficult it confirms the accuracy of the early poverty analysis. It also highlights the contribution innovative government programs assisted by AID can make to the search for solutions to extremely difficult problems and in turn to rural stability.

I hope you and members of the Asia Bureau will give this update full consideration.

Sincerely,

Michael H. Armacost
Ambassador

Enclosure:
USAID CDSS

PC

December 20, 1982

Mr. Charles W. Greenleaf, Jr.
Assistant Administrator for Asia
Agency for International Development
Room 6212 NS
Washington, D.C. 20523

Dear Charlie:

Attached is USAID/Philippines' FY 1985-89 "CDSS Update." As you know, our country development strategy, which evolved over the last three years, was approved by the Agency in last year's review. Consequently we were asked to do an update this year consisting of an examination of how our strategy already incorporates or in the future might better incorporate the Agency's priorities in policy dialogue, private sector development, institution building, technology research and transfer, and greater use of PL 480 resources and participant training.

The exercise we were asked to do was one we thoroughly enjoyed within the Mission. We reached some interesting conclusions and decisions about future program analysis needs. For one, the exercise showed how existing and planned activities can be implemented in a manner which is entirely consistent with the Administration's four major concerns. Indeed, in most cases the concerns have been integrated in varying degrees into our portfolio over the last five to ten years. We are comfortable about dealing with these areas and the final product has been greatly enhanced by recent visits from you, John Bolton and John Ericksson. John's participation in our Mission caucus was especially helpful.

There was an element of frustration with this updating exercise, however, that came from trying to present a comprehensive paper in the face of considerable uncertainty surrounding the upcoming review of the Amended Bases Agreement. The Ambassador has mentioned this in his letter to you, which is also attached, so suffice it to say that next year's effort will be undertaken in a considerably different environment.

Beyond the impact of the Amended Bases Agreement review on our assistance relationship, we must be much more sensitive in the future to GOP budgetary constraints. Across-the-board cuts of 18-20 percent are now being taken

Mr. Charles W. Greenleaf, Jr.

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as the GOP attempts to comply with the IMF recommendations and its own internal decisions. We expect these to intensify during next year and may find the concern to be directly driving decisions on future assistance.

Thank you for your continued support of the Philippine program.

Sincerely,

Anthony M. Schwarzwald
Director

Enclosure:
CDSS Update

OD:AMSchwarzwald:ef:12/20/82

Clear: OD:MKilgour (draft)
PO:GALaudato (draft)

PHILIPPINES

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1985 REVIEW

January 1983

FINAL

FY 85 COSS

REVIEW

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I. THE FOUR POLICY INITIATIVES

I.A Introduction

The FY 1982 Country Development Strategy Statement and subsequent updates proposed a new direction for AID assistance to the Philippines in the 1980's and beyond. The strategy is based on a more refined understanding of the dimensions, nature, and determinants of poverty in the Philippines. It led to a re-orientation of the Development Assistance Program, influenced the types of programs developed under the Economic Support Fund, and now helps define a role for the four policy initiatives of the Administration within the framework of our program.

The analysis of poverty which underpins the strategy identifies an estimated 4 million poor households (or approximately 30 million people), most of which are rural. Many are landless with only their labor to sell in an unremunerative environment, while others are small-scale farmers in rainfed areas who depend on marginally productive upland farms to eke their subsistence livelihood. Artisanal fishermen are also a significant poverty group. Heavy population pressure each day drives more people into an overcrowded labor market. A growing number of poor are being forced into uplands and coastal fishing areas in search of the means for survival. As a result, fragile ecosystems are being destroyed, resource productivity lost, and the poor's already precarious existence threatened.

To address these problems, our CDSS sets sustained and more productive employment for the poor as its overall assistance objective and identifies three supporting strategy objectives:

1. To create more jobs in rural areas.
2. To promote higher productivity among those already gainfully employed.
3. To reduce the rate of growth of the labor force.

To help the Philippines meet these objectives, we are developing four programs under our ODSS: fertility and infant mortality reduction, rainfed resource development, rural private enterprise development, and local resources management.

Meanwhile, the Economic Support Fund (ESF) program was developed to meet related but broader objectives. Initially, the major effort was assisting with the establishment of the GOP entity created to run the ESF program. Subsequent concentration was on the early approval of projects which would be quick disbursing, highly visible, and have an impact in the areas of the military bases. The consequence is a current ESF program focused on livelihood development, non-conventional energy resources, decentralized municipal development, and regional development in the bases region.

While the Philippines experienced rapid growth during the 1970's (about 6% per year), this growth was not broadly based resulting in a growing income disparity. While our efforts to increase productive employment are explicitly focused on amelioration of poverty, they are also supportive of broad based economic growth (i.e., growth which benefits all or most segments of society as opposed to simple expansion of GDP). In a country like the Philippines, where 65% are classified as

poor,^{1/} economic growth for this group is almost by definition broadly based growth. Furthermore, our DA, ESF and PL 480 programs are supportive of efforts to broaden the base of economic growth, and thereby contributing to political stability.

As a Mission with an approved CDSS, we have been asked to discuss the relationship between the four policy initiatives of the Administration and our approved strategy. Consequently, the following four sections describe the status of present and planned efforts in Policy Dialogue, Private Sector, Technology Transfer, and Institutional Development.

I.B Policy Dialogue

1. Background: We have analyzed and reported extensively on the developmental problems facing the Government of the Philippines (GOP),^{2/} including: high population and labor force growth rates, maldistribution of income, inadequate domestic resource mobilization, and the balance of payments. A host of other developmental issues face the Philippines which, to a greater or lesser degree, affect its ability to address these problems. They include concentration of decision making authority and resources in Metro-Manila, extensive ecological deterioration, dependency on the world economy, peace and order problems, and the relationship between the public and private sectors.

^{1/}USAID/P, FY 82 CDSS

^{2/}See Annex for a partial bibliography.

The Government adequately reviewed and articulated most of the country's developmental problems and policies in the Five-Year Philippine Development Plan, 1983-1987.^{3/} We generally support the GOP's stated macro-economic policies such as a floating exchange rate, market-responsive interest rates, labor intensive investments, diversified regional development, land distribution, and increased rural investment and services. Further, as our Policy Dialogue cable (82 Manila 24466) indicated, the Mission is supporting, through its projects, extensive GOP policy research, analysis, and formulation addressed to some of these issues.

In our view, the GOP's receptivity to policy analysis is high and its publicly articulated policy positions on its development problems are generally sound. However, there are often important gaps between the articulation of development policies and their execution. The Government often simply fails to effectively carry out its announced policies due to lack of sufficient commitment, the rise of more urgent considerations which deflect attention from those policies or, in some cases, the lack of resources. Three primary examples of this problem are discussed below.

The first is population policy where over the past year there has been a clear softening of support for the program. For example, the 1983-87 Five Year Plan, devotes considerably less space and attention

^{3/}While the Development Plan provides a generally good overview of the development situation in the country, its treatment of the population problem is an important exception.

to population, has dropped demographic targets altogether, and assumes that fertility decline will occur "as a consequence of changes in lifestyle arising from industrialization and urbanization." This is a significantly different position than had previously existed (see our 1979 Multi-Year Population Strategy).^{4/} Second, the GOP Budget often does not include adequate funding to support policy pronouncements. Examples are productive employment generation (except possibly through the KKK, where the question of sustainability exists), regional development, land redistribution, and rural infrastructure. Last is the issue of the private sector. While the GOP regularly enunciates policies encouraging private sector development, the Government invests in enterprises in competition with the private sector, sometimes making certain trade areas prerogatives of the public sector. Further, the GOP has taken control of many distressed companies as a result of defaults on government development bank loans. Although GOP policy is to return control of these companies to the private sector, it is not obvious how or when this will occur.

Donors play an important role in policy dialogue particularly in the face of the dichotomy between GOP words and actions. For the shorter-term problem areas of resource mobilization and balance of payments, the World Bank and IMF have been successful in encouraging the GOP to improve policy execution. Negotiations with the IMF for access to a new Extended Fund Facility and to the Compensatory Financing facility have led the GOP to begin rationalizing its budget and

^{4/}Although the change could be seen as indicating a shift in policy articulation, senior GOP officials have reassured donors that Government policy has not changed.

investment policies. Further, the World Bank has been reluctant to discuss the second phase funding of the Structural Adjustment Loan until after the IMF negotiations. We generally have supported these efforts in informal discussions and through encouragement of GOP attendance at conferences to discuss policy research. We do not believe an escalation of our involvement in discussing short term policy issues would be appropriate at this time. This is due both to the upcoming military bases review and the possibility that the GOP may question USG policies in connection with textile and sugar quotas or GSP commodity listings where these policies are viewed by the GOP as having a negative impact.

The resolution of other longer-term issues such as population, employment, and skewed income distribution are shared concerns of the bilateral donors, the World Bank and the ADB. However, other bilateral donors play no significant role in policy dialogue on these issues except possibly at the annual Consultative Group meetings. In recent years, we have been a relatively active participant in discussing these policy issues and have designed specific projects to directly or indirectly address these problems.

2. Strategy: We are convinced that the level and mode of policy dialogue which we have developed and used in our operations has provided, and will continue to provide, an effective means for influencing Philippine development. As described in our Policy Dialogue cable we intend to continue and refine this approach in our ongoing development strategy.

From the standpoint of economic development, reduction of fertility should remain one of the GOP's highest priority objectives. The Mission believes that this matter has been, and will continue to be, vital to the Philippines's ability to achieve self-sustaining economic development. Thus, the U.S. should continue to support effective implementation of public and private sector programs and to encourage the inclusion of specific demographic targets in the GOP planning process. In identifying this as an important area, we will need to take full cognizance of the cultural and political aspects of the issue. It is highly desirable to have other multilateral and bilateral donors play a leading role in the dialogue. This was begun at the Tokyo Consultative Group Meeting. The scope and direction of our future efforts in this area will be greatly influenced by an update of the Multi-Year Population Strategy which will be undertaken in February 1983.

Another important objective is to continue support, through our projects and the project development process, for the development and execution of a broad range of policies which are necessary to overcome the Philippines' principal development problems. This requires involvement in a wide range of activities, including brain-storming and discussion of basic policies, collaborative design of projects, and continuing to assist GOP counterparts narrow the gap between policy articulation and execution. A current example is the development and implementation of the Rainfed Resources Development program. Initial pre-project activities included a series of workshops on developmental problems of upland areas and of coastal zones, culminating in a seminar on agricultural policies and prices attended by Deputy Ministers and senior staff from several Ministries. Based on the recommendations arising from these activities, Mission staff and counterparts from the Ministry of

Agriculture, the Ministry of Natural Resources, and the National Economic Development Authority developed the Rainfed Resources Development project through which government attention can be focused on policies to provide effective resource management in rainfed areas by community-based private groups and individuals. Through the project we will have continuing opportunities to influence policy decisions affecting use and management of renewable natural resources.

A similar process is now underway concerning the financing of primary health care. The process of project development to date has already produced an active policy dialogue involving the Minister of Health, several Cabinet members, the Presidential Advisor on Health, NEDA, and top leadership of the Population Commission and the National Nutrition Council. The project may have its major influence on health delivery policy during project development and negotiation, but other health policy issues such as beneficiary and local government financing of services and the administration of service delivery will be addressed during project implementation.

By FY 1988, we expect to have contributed significantly to the development and execution of policies to improve the incomes of target groups, to decentralize control over management and resources to regional and lower levels, and to generate employment opportunities in rural areas.

Another objective in the policy dialogue area is to continue support for research and general economic analyses to identify approaches to policy problems at all levels, with particular focus on macro-economic policies and their impact on sector and project goals. In this effort, we are engaging GOP policy makers actively. The first major topic is the relationship between the public and private sector.

The Mission will be undertaking at least one, and perhaps more, project activities (e.g.: Small and Medium Enterprise Development and Private Investment Promotion) which directly encourage private sector enterprises, particularly in rural areas. We also expect to address private sector concerns through policy dialogue outside the project format aimed specifically at revitalizing the private sector as the principal driving force behind economic growth in the Philippines. A major objective will be to seek ways to define and to encourage approaches and activities for both the private and public sectors which maximize mutual support and limit encroachment into each other's legitimate areas of concern. Initially, seminars and workshops on issues discussed below will be sponsored as well as consultancies of recognized experts in the fields of economics, finance, and private enterprise organization.

I.C Private Sector

1. Background: By LDC standards, the Philippines is very much an open market economy with a large and thriving indigenous private sector as well as direct U.S. private investment of \$ 1.3 billion. The stated Government policy is to encourage private investment and promote growth of the private sector. The GOP has established organizations to foster private enterprise development, particularly small and medium enterprises.

While opportunities for encouraging and using the private sector are considerable, there are also clearly constraints on what USAID can do in this area. As mentioned earlier, there is a gap between

stated policy and actual execution. Evidence suggests that assumption by the Government of traditionally private sector functions is increasing, apparently because the GOP regards private mechanisms as incapable of performing certain functions in a manner most beneficial to the people. A further problem is that the economic structure strongly attracts businesses to Manila at a time when areas outside of Manila have more serious poverty and employment problems yet greater potential for development.

2. Strategy: The Mission strategy is consistent with and draws from AID/W guidance. The first element is the involvement of the private sector in the achievement of project objectives whenever appropriate, with a focus on profit-making private enterprises where feasible. In addition, we will mobilize non-public sector entities in support of development objectives. For example, PVOs, educational institutions and cooperatives, as well as profit-making enterprises, will contribute toward achieving the Local Resources Management project purpose of identifying replicable productive, self-reliant, local development approaches focused on poor households. The same will be true of the Primary Health Care Financing Project's efforts to develop self-sustaining, beneficiary-based health financing mechanisms.

A second element of the strategy is the development of discrete projects to promote private enterprises which will generate increased productive employment in areas outside of Manila. The

approach follows the guidance of the Private Enterprise Development Policy Paper with a focus on privately owned, profit-oriented economic units producing goods and services for competitive markets. A nascent activity involves policy level discussions with public and private sector groups to foster mutual understanding and to improve the environment for the development of private enterprise alternatives.

Efforts to implement our private sector strategy, a component of our CDSS from its inception, have been encouraged and intensified with guidance from Washington. Work has been accelerated on the Small and Medium Enterprise Development Project, which will test private sector approaches for generating productive employment as well as improving the institutional and policy environment for sustaining successful approaches. Dialogue with the Ministry of Human Settlements resulted in agreement to test privately-owned city markets under the ESF-funded Markets Project. In the months ahead, these efforts will continue and increase.

In addition, we will initiate new activities. New research might investigate such issues as: (1) private and public sector roles in economic growth, (2) perceived constraints on private sector development, (3) the relative merits of investment in the domestic market vs. the export market, (4) possible roles for U.S. private sector groups, (5) appropriate methods to increase private sector participation in achievement of key development objectives. We intend to develop and improve linkages between the private sector and public and private policy research institutions, and, where appropriate, help to expand private sector capability to carry out relevant policy research and development.

We will explicitly consider the private sector role in all on-going and new projects. The private sector will be used whenever possible and project interventions which compete with the private sector will be avoided. Thus, private sector opportunities within projects will be identified and promoted (e.g., private sector delivery mechanisms in health or family planning, supply of credit and other agricultural inputs, or transporting, storing, processing or marketing of project outputs).

Participants for training will be sought from private sector institutions and public sector agencies concerned with private sector regulation and policy whenever such selection contributes to our development objectives. Our participant program will expose potential and actual policy makers to the advantages of free enterprise and competition.

A private sector program committee, with broad Mission representation, meets regularly to refine Mission strategy, to meet private sector program objectives, and to help insure that private sector program concerns are being considered adequately in the Mission's portfolio.

We will strengthen our liaison with private sector and private sector-oriented organizations such as academic institutions with strong private enterprise research, training and outreach programs; for example, the Asian Institute of Management and U.P. Institute of Small Scale Industries. Private sector assistance strategies and programs will be coordinated with other interested donors as well as AID's Private

Enterprise (PRE) Bureau to take advantage of PRE's research into appropriate private sector alternatives for development.

The overall goal of the foregoing activities is to have in place, by the next CDSS up-date, a systematic process for considering the private sector as a development tool in all projects and to have a better defined private enterprise development portfolio with projects in place.

I.D Technology Transfer and Research

1. Background. AID technology transfer, research, and institution building efforts during the last three decades have contributed to a very well developed capacity in the Philippines to adopt, generate and utilize technology. We have a broad view of the meaning of technology -- technology is knowhow; technology is application of knowledge for practical ends; in addition to the scientific dimension, technology includes management and organizational dimensions.

Technology transfer includes both transfer of technical knowledge from the developed world and the transfer of technology among developing countries. The farming systems development project in the Eastern Visayas is a good example of the transfer from the developed world of a technology primarily concerned with a process for developing appropriate technical solutions rather than with the scientific dimension. The charcoal production project illustrates the transfer of technology to the Philippines from another

developing country, Brazil, for further testing and improvement; the potential exists for subsequent transfer of further improved charcoal technology from the Philippines to other developing countries. Examples of technology transfer from the Philippines to other developing countries include a recent request from Nepal for Philippine technical assistance with light engineering and food processing, requests from Jordan and Pakistan for Philippine assistance in oral rehydration technology, as well as the large number of other developing country trainees who study at Philippine institutions.

While the Philippine science and technology community is highly developed, several factors impede the successful utilization of this capacity:

- a) Predilection for imitation, innovation, and experimentation sometimes results in a rush to be at the leading edge of technology development, such as genetic engineering, which even in the developed world is still distant from broad application. As a result, resources and attention are diverted from work on other technologies, many with a more immediate potential for application.
- b) There is a ~~tendency~~ tendency to provide resources for new programs and institutions at the expense of supporting and maintaining ongoing programs. This is a reflection of continual and rapid changes in priorities, in many instances prior to the substantial completion of work on earlier ones.
- c) Linkages are very limited between public and private sector technology and research institutions, and between Manila and other areas.

- d) The domestic reward and incentive structure tends to divert scientists from active involvement in research, development, and utilization of technology. Other incentives attract them abroad.
- e) As is characteristic of the other parts of the economy, there is a high degree of centralization of the science and technology community, for example the concentration of agricultural research and development in Los Banos.

2. Strategy. Mission strategy will continue to emphasize technology transfer and research. Our efforts will focus on the following activities:

- a) Emphasis will shift from building to using capacity. The farming systems projects and the proposed upland agricultural research project will generate research results that have been developed with Philippine research capacity and are close to the environment in which the research results will be utilized.
- b) We will continue to facilitate sharing of technology with other developing countries. Training in the Philippines will continue to be an important technical relationship between the Philippines and these countries. Bio-energy systems, small-scale industrial development, communal irrigation, and rainfed agriculture are areas that are also promising in terms of sharing technical and research developments with other developing countries.
- c) Technology transfer and research concerns will be included in projects where the emphasis will be on using existing Philippine capacity.

- d) In our discussions with the GOP, we will continue to emphasize the importance of appropriate, ready-to-utilize technology rather than concentrating on obtaining the very latest technology.
- e) The private sector will be used to promote technology utilization.
- f) We will support the decentralization of research and development activities to the place of ultimate utilization, for example the movement of agricultural research to farm sites.
- g) The Mission will continue to facilitate regional and centrally funded technology transfer and research efforts. In a sense, the Philippines serves as a "development laboratory" for over one hundred AID projects that are funded outside the bilateral program. Our support for these efforts will focus on the testing, generation and adoption of technologies that can be utilized both in the Philippines and in other developing countries.

I.E Institutional Development

1. Background. The Philippines has strong national institutions with highly educated and well qualified managers and staffs. Donor assistance during the last three decades has contributed considerably to the capacity of GOP institutions dealing primarily with agriculture, but also with infrastructure, population, health, public utilities, education, and research. There are also several strong nongovernmental institutions involved with rice research, higher education and research, management training, and private, voluntary activities.

The GOP currently is pursuing a policy of decentralization and consequently is attempting to improve the capacity of local institutions. As a result of AID and IBRD assistance programs starting in the 1970's, there already are some regional and provincial institutions capable of efficiently initiating development activities, providing electric power, and delivering a wide range of public services. Capacity at this level is stronger in some areas such as capital improvement projects and weaker in others, for example needs analysis. At the subprovincial level, public and private institutions have less ability to undertake development activities focused on local problems.

The decentralization process to which the GOP presently is committed will require a redefinition of the present roles of a number of important national agencies from direct performance of service and regulatory functions to the provision of assistance and the creating of enabling conditions for self-reliant local development. Effective performance in these new roles will in turn depend on these agencies developing new capabilities not currently in place.

2. Strategy. As indicated in a variety of documents^{5/}, the development of local institutions is a key component of efforts to achieve the COSS objective of more productive employment for poor groups. The primary goal of institutional development efforts is to

^{5/} USAID/P, FY 84 COSS and PIDs and PPs submitted during FY 82

establish and strengthen local private and public institutions which can initiate and sustain development processes. Our approach to institutional development recognizes that self-sustaining development in all sectors is dependent upon the active participation of local institutions and people.

We are supporting changes at all levels of the development hierarchy in an effort to achieve our institutional development goal. At the local level, we are beginning to assist local institutions with their own development activities by providing technical and financial assistance and by advocating policy changes at higher levels which enable a wide range of local private and public institutions to fulfill their full development potential. Such institutions include entrepreneur associations, farmer organizations, social-forestry groups, village health associations, fishermen groups, and private voluntary organizations. While such groups understand local development problems, they need assistance with needs analysis, with the mobilization and management of resources, and with the identification, design, implementation, and maintenance of alternative solutions to development problems ranging from livelihood and small infrastructure activities to local schemes for financing primary health care.

At the municipal and provincial level, an expanding array of private and public groups need financial and technical assistance with marketing, resource mobilization, management, and the planning, design and implementation of development projects. In addition, policy changes are needed to make public institutions more fully supportive of local nongovernmental development initiatives.

While AID's primary focus is on subnational institutions, of necessity, we will work with and through national agencies to help them re-examine their policies, programs, and procedures in light of the GOP's commitment to self-reliant local development. We particularly are concerned with strengthening GOP capacity to analyze the needs and constraints of local institutions^{6/}, to support nongovernmental organizations, to implement decentralization, to provide effective technical assistance to local groups, to undertake policy analysis, and to conduct research on selected rural development and energy problems. The strengthening of these selected central GOP capacities supports our overall effort to shift responsibility and authority for development activities from national to local institutions^{7/}.

The approach highlighted above is important to our new projects and to those we will be initiating in the future. Since space does not permit a discussion of our institutional development efforts in each sector, this section provides two examples of our approach.

A. Rural Energy.^{8/} A critical component of this activity is the establishment and strengthening of local, nongovernmental institutions. To

^{6/}Whereas the draft policy paper (p. 23) calls for mission conducted institutional analysis, we believe that in the case of the Philippines the capacity for such analyses should be developed within national and local institutions.

^{7/}It should be noted that efforts to support decentralization are not generally supported by other donors who are focusing their technical assistance efforts at the national level.

^{8/}For a more complete discussion, see USAID/P "Rural Energy Development" Project Paper, April, 1982. The PP also describes a similar undertaking using tree farmers groups in a charcoal production program.

guarantee the supply of fuel for wood-fired power plants, private Tree Farmers Associations (TFAs) are being organized within some of the 115 Rural Electric Cooperatives (RECs), which are part of the National Electrification Administration (NEA). Each TFA, comprised of about ten farm families, is developing the capacity to plant, cultivate, maintain, and harvest trees on 100 hectare units of previously denuded public land to which they have a long term lease. TFAs will receive technical assistance, legal advice, marketing, transport services and production loans from the RECs. The RECs are receiving technical and financial assistance from NEA and are gaining the capacity both to support TFAs and to operate wood-fired power plants efficiently. NEA, a well-managed, highly participatory and decentralized institution, is expanding its Dendro-Thermal Development Office so that it can more effectively work with and assist RECs and TFAs in the establishment, operation and fueling of wood-fired power plants.

B. Primary Health Care Financing. This activity will focus on improving private and public local primary health care (PHC) delivery mechanisms. Local groups will receive financial and technical support to test financing schemes which are participatory, within the management and administrative skill of the community, and affordable by intended beneficiaries. Several different types of organizations such as PVOs, universities, foundations, and government agencies will work with and assist local groups and thereby enhance their own institutional capacity to support local PHC institutions. A technical assistance and training program will improve the capacity of a variety of private and public local PHC delivery institutions such as rural health units,

village organizations, and provincial and municipal development and health staffs. To support local health initiatives, a special PHC studies and policy analysis activity will be established. Particular attention will be directed at coordinating the local activities of three independent GOP agencies (Ministry of Health, Commission on Population, and National Nutrition Council) and involving local government in managing primary health care programs.

II. RELATED PROGRAM CONCERNS

II.A Participant Training

Participant training will focus on the primary COSS goal of increasing productive employment opportunities through the acquisition of knowledge and skills necessary to develop effective institutions and the transfer of technology. Further, a concerted effort will be made to provide appropriate experiences for public and private individuals, identified as currently or potentially influential in the formulation of policies critical to development of the economy. This mechanism for fostering policy dialogue and reform will be supplemented by bringing U.S. experts here for special workshops, seminars, and training programs.

Approximately 200 participants are sent to the United States or third countries for training each year, with a similar number from other missions handled by this Mission for training in the Philippines. Mission projects also support considerable training at the excellent educational institutions in the Philippines.

Almost all projects include a participant training program. Depending on the nature of the project and identified manpower needs, participant training may be used to acquire technical skills and knowledge in such fields as plant genetics for agricultural research or to improve individual skills necessary for development of capable institutions. An example of the latter is the participation of 23 market town mayors in the local government administration and management program at the University of California at Berkeley.

The Mission intends to maintain and possibly increase the pace of participant training through its regular projects. This will be supplemented by a new and separate participant training and policy analysis project not directly supportive of specific projects but critical to attaining broader development objectives. Participants will be chosen from central government organizations, local governments and other public institutions, and a wide variety of private institutions.

II.B Food Aid

The PL 480 Title II Maternal and Child Health Care and School Feeding Programs remain important elements of our overall program. They address the problems of poverty through nationwide targeted feeding programs. However, the school feeding and maternal and child health activities of CARE are scheduled to phase out in FY 86, while the CRS program is scheduled to end by FY 87. Under these circumstances, we believe that the Title II program is integrated into the Mission strategy to the extent feasible and that further attempts to restructure or readjust the program would be counterproductive. Such efforts would undermine our ability to negotiate and to work amicably with the voluntary agencies and GOP counterparts during the delicate phasedown period. The aim is to phase out this 25-year program in a way that preserves as much as possible of the political goodwill and development impact that it has engendered.

We have been considering the possibility of initiating a PL 480 Title I program during the CDSS period. If the government requests such a program, we will engage in a dialogue stressing the use of Title I

generations to support program objectives. Accordingly, we are exploring a variety of mechanisms to combine possible peso generations with our emerging overall focus on private initiatives.

II.C Other Donors^{9/}

1. Program Relationships: One of the prime factors taken into consideration in formulation of the Country Development Strategy is the relationship of our program to that of other donors to the Philippines. The comparison of other donor assistance practices and capabilities with USAID objectives and resources led to the concentration in our strategy on riskier activities where large scale investment opportunities do not yet exist for the larger donors. Essentially we expect to pave the way during initial years of assistance for later larger investments by the Government and the development banks with resources sufficient to meet the demand. This has been the previous Philippine pattern in the areas of irrigation, rural electrification, regional development, nutrition, population, and rural roads. All are programs that AID financed initially and the other donors followed with larger subsequent investments.

If we are successful with our initial activities in rainfed resources, primary health care financing, local resources management, small/medium enterprises, municipal/regional development, rural energy, and markets, we expect the Government and other larger donors to invest heavily in expansion of these programs. In addition to these new

^{9/}See: (1) FY 1982 CDSS, pp. 37 and 38, and Annex F; (2) Other Donor Assistance to the Philippines, OD/P, USAID/Manila, Jan. 1982

areas we are continuing our assistance along with the other donors in population and PVO Co-financing where AID has a distinct advantage over most other donors.

2. Donor Coordination: Formal coordination of donor assistance to the Philippines is limited to the yearly donor coordination meeting held under the auspices of the Government and the World Bank. Beyond this, coordination is informal and based on the good will of the staffs of the various donor organizations. The largest donor, the World Bank, has no resident representative in Manila and, therefore, coordination is limited to exchanges with visiting bank representatives. In spite of the informality of coordination, few significant problems regarding major development issues have arisen between AID and the other major donors. One area of difficulty, however, is that when programs have been expanded, particularly with multilateral donor support, they have at times overtaxed implementing institutions, mainly by allocating unnecessarily large funding in the early years of the transition. Managing this transition smoothly is perhaps the most difficult donor coordination issue we face. We are in constant contact with the other donors' staffs to discuss our mutual objectives and programs and to gain their support. To assist us both in formulating our strategy and in influencing the programs of other donors, we have initiated multi donor meetings on population, health, water supply and sanitation, various aspects of rainfed agriculture, and employment generation in the private sector.

III. PROGRAM IMPLICATIONS

It is clear from the discussions of the four policy initiatives that they are important to achieving the objectives set forth in our CDSS. A historic view of the Philippine program also indicates that over the last 35 years, policy dialogue, institutional development, the private sector and technology transfer have played, at one time or another, a major role in helping AID programs achieve a variety of development objectives. The present re-emphasis of these four priorities comes at a time when the AID program has a sharper strategic focus by virtue of the detailed analyses which preceded development of the CDSS. Having this clear view of where we want to go enhances our ability to make constructive use of these broader priorities.

At present, the CDSS emphasizes the Development Assistance Program. The Economic Support Fund (ESF) is associated with achievement of a broader set of political and economic objectives. The actual programs supported with DA and ESF are similar, however, and are becoming more so each year for a number of reasons, including a shared rural focus and basic human needs orientation.

The Philippines is presently undergoing a serious economic recession which may require further refinement of our poverty analysis and re-thinking of solutions to the problems posed in that analysis. Also, as we continue to refine and experiment with ways of operating within the priority areas discussed in this document, we will be able to expand the use of these means to help meet the objectives of our Foreign Assistance Program. Finally, there may also be additional emphases

which result from the upcoming bases review which will need to be incorporated into any strategy development for a Philippine Economic Assistance Program.

However, it is not appropriate at this time to discuss ESF levels and without doing so, a discussion of DA levels or a re-thinking of our strategy is less meaningful. Our immediate task therefore is to gain experience with new initiatives and continue to implement the relatively new CDSS program. We will be able to judge better how to reformulate our strategy to meet program objectives when we have a clearer fix on funding levels and the modalities of assistance. Therefore, on the assumption that there may be significant changes in the foreign assistance environment for the Philippines emerging during the next several months, we expect to undertake a new CDSS for FY 1986, although the underlying poverty analysis of the current CDSS remains valid.

Annex

Policy Related Analysis Sponsored by USAID/Philippines

1. Poverty Profile of the Ilocos Region (Region I), Development Academy of the Philippines, November 1982.
2. Poverty Profile of the Cagayan Valley (Region II), Development Academy of the Philippines, November 1982
3. Local Resource Utilization Schemes for Selected Community Based Primary Health Care Projects in the Philippines, Ma. Concepcion Alfiler, U.P. College of Public Administration, November, 1982.
4. Poverty Profile of Eastern Visayas, OD/P/USAID, September 1982
5. Rural Household's Poverty Profile, Bicol Region, OD/P/USAID, August 1982
6. Household Health Seeking Behavior and Expenditure Patterns for Primary Health Care in Cabagan, Isabela, Theresita Ramirez-Lariosa, M.D.; U.P. Institute of Public Health, July 1982.
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9. Economic Profile of Western Visayas, OD/PE/USAID, March 1982
10. Philippine Balance of Payments, Inflation and Macro-Economic Policy Implications for CDSS, OD/PE/USAID, March 1982
11. Analysis of Agricultural Policies in the Philippines, Dr. Cristina David, February 1982
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23. Infant Mortality in the Philippines: Causes and Correlates, Dr. Sheila West, 1981
24. Agricultural Profile and Assessment, Bicol V, OD/P/USAID, December 1980