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A.I.D.-Assisted Social Services Programs in the Philippines:

Responsiveness to a Changing Economic Context

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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A.I.D. - ASSISTED SOCIAL SERVICES PROGRAMS

IN THE PHILIPPINES

RESPONSIVENESS TO A CHANGING ECONOMIC CONTEXT

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I. INTRODUCTION

A. Purpose

In recent years, an important issue for A.I.D. has been the capacity of development programs, in this case social services, to adjust to increasingly scarce resources. In the 1980s, A.I.D.'s social services program faced a significantly different economic context from the 1960s and 1970s. The debt crisis, rising government deficits, and declining donor funds characteristic of the 1980s have raised new questions about the sensitivity of social services programs to the economic environment, particularly their responsiveness to macro-economic conditions.

In view of this concern, the A.I.D. Administrator requested that the Center for Development Information and Evaluation (CDIE) undertake a review of social services programs (population, health, nutrition, education, and housing) in six countries to determine how sensitive A.I.D. programs and projects have been to macro-economic conditions. The countries selected for this study include those with a substantial A.I.D.-supported social services program. Also, the countries were selected to compare those experiencing a sustained growth pattern of development with those experiencing a growth/decline pattern of development. This report on social services programs in the Philippines is one of the six case studies. The Philippines followed a growth/decline pattern of development in the 1965-1987 period.

B. Organization of the Report

The first section presents the rationale, the organization and the methodology for the study. The second section reviews trends in economic development in the Philippines in the period of rapid growth and the period of decline, patterns of government expenditures, and the distribution of growth. The third section reviews trends in social services policy and sector development in the Philippines, as well as government social services expenditures. The fourth section analyzes the evolution of A.I.D.'s strategy and social services program. The fifth section analyzes the responsiveness of A.I.D.'s social services projects (population and health) to their changing economic context. The final section present the study's conclusions.

C. Methodology

This report presents a case study on A.I.D. assistance to social services projects in the Philippines and the nature and extent of project sensitivity to macroeconomic factors over the past two decades.

Given the availability of project documentation, this report concentrates on projects in the post-1975 period. Also, the large size of A.I.D.'s social service portfolio in the Philippines makes a comprehensive analysis difficult; therefore, the review focuses principally on the overall A.I.D. program strategy and projects in the population planning and health sectors, in which A.I.D. devoted considerable resources. The report does not attempt to assess the relative effectiveness of different types of program responses to the economic environment.

This "desk study" draws primarily from A.I.D. and World Bank documents relevant to economic development in the Philippines, the social services sector and social services projects. The report is based on material contained in A.I.D. Country Development Strategy Statements (CDSSs), World Bank country and sectoral reports, and A.I.D. project papers and evaluations.

Finally, before closing this discussion of the methodology, several caveats are in order. One, indicators of A.I.D.'s sensitivity and responsiveness to a changing economic context, such as attention to cost-effectiveness, private sector involvement, cost-recovery, can not be analyzed independently from policy initiatives and other directives from A.I.D./Washington. For example, it is not always possible to distinguish what are program or project responses to the on-going debate about sustainability of health care in A.I.D./Washington and what are responses to the Philippine economic context.

Two, many of these projects were developed in periods in which concern for cost effectiveness, private sector involvement, and cost recovery were more peripheral to their project design and implementation. Therefore, at this point, analysis of their sensitivity and responsiveness to a changing economic environment is based not only on hindsight, but it is based on different criteria.

Three, such a "desk review" has inherent and serious data limitations, which make any findings necessarily suspect and preclude the ability to draw fully defensible conclusions.

II. THE PHILIPPINE ECONOMIC CONTEXT: 1965-1987

The economic environment in which social service programs evolved in the Philippines has changed substantially over the last two decades. From the mid-1960s to 1980, the country sustained a high rate of growth with GNP averaging six percent growth in real terms. However, by the early 1980s, structural problems in the Philippine economy were increasingly evident. Since 1980, GNP growth plummeted, averaging only 2.8 percent real growth annually in 1980-83 period and real decline in 1984 and 1985 for the first time in four decades. The country was in a state of severe economic and political crisis from 1983 to 1985.

Only in 1986 and 1987 did the economy reach some measure of stability and did GNP growth resume to positive levels.

The following subsections will examine this economic context for the social services sector by reviewing (a) the phase of growth; (b) the phase of decline, economic crisis and adjustment; (c) government expenditures and foreign donor assistance; and (d) the distribution of growth and social indicators. The section ends with some concluding remarks.

A. The Phase of Rapid Growth: 1965-1979

The Philippines is largely an agriculturally-based economy, dependent on the export of primary goods such as sugar, coconut, bananas, copper and forestry products. After a period of slow growth in the 1960s and early 1970s, the agriculture sector grew by five percent annually from 1973 to 1980, principally due to the export of commercial crops benefitting from new seed technology, expanded irrigation, and high commodity prices. However, domestic agriculture, principally rice and corn production, stagnated until the late 1970s.

In this same period, the manufacturing industry assumed a major role in the development of the Philippines, rising from 15 percent of the gross domestic product (GDP) in 1960 to 25 percent by 1980. The manufacturing sector grew by over seven percent annually between 1965 and 1980. In the 1960s, the government placed primary emphasis on developing import-substitution industries, while in the 1970s, the government instituted new economic policy measures to stimulate exports, including a steep devaluation and export incentives. Partly due to these policies, the country achieved import substitution in several consumer products, developed primary processing of domestic raw materials for export and expanded significantly manufactured exports.

Balance of payments deficits were a problem in the 1960s, given the relatively slow growth of exports and industry's heavy dependence on imports. Also, in the early phase of this growth period, the government had increasing problems servicing the external debt, as the debt service ratio rose from 9.6 percent in 1960 to 24.4 percent in 1970. However, the current account remained roughly in balance throughout the early 1970s largely because the sharp rise in the price of primary commodities supported a trade surplus.

By 1974, the first oil price shock marked the return of balance of payments deficits. The rising costs of fuel imports and the large volume of imported inputs associated with the country's capital intensive industrialization strategy led to a severe deterioration in the terms of trade, an 18 percent decline between 1972 and 1979. The dramatic growth in the export of non-traditional exports, rising at 25 percent annually between 1970 and 1980, was unable to fully compensate for these skyrocketing import expenses.

Throughout this period, but particularly in the 1970s, the government gave a high priority to expanding the public sector as the main vehicle of development. The martial law government of President Ferdinand Marcos was the dominating force during this phase of rapid and extensive expansion of the public sector. Under Marcos, government investment grew from 1.5 percent of GNP in 1970 to six percent of GNP in 1979.

Table No. 1
The Philippines: Selected Economic Indicators
1965-1986
(Annual Growth Rates based on constant price data)

	1965-73	1973-80	1980-85 (%)	1985	1986
GNP	5.5	6.3	- 1.6	-4.2	1.8
GDP	5.4	6.3	- 0.7	-4.6	1.1
-by industry origin					
Agriculture	4.1	5.0	1.7	3.5	3.4
Industry	7.4	7.8	-2.6	-10.2	-2.8
Services	4.8	5.8	-0.4	- 4.7	2.6
-by expenditure shares					
Persnl Consumption	5.9	5.0	2.1	-6.0	2.4
Govt. Current Exp.	8.4	4.2	-0.6	-1.2	4.9
Gross Domestic Investment	4.5	11.0	-17.2	-21.5	-7.2
Trade Balance (exports minus imports)	0.0	3.5	-5.7	3.0	6.2
Exports	1.8	8.2	2.9	-7.2	21.6
Imports	3.1	8.5	-4.6	-23.1	25.7
Medium/Long-Term Debt; IMF Obligations and Official Short-Term Debt (b)	6.9	29.0	17.4	N/A	N/A
Inflation Rate	8.4	11.8	21.1	23.1	0.8

Source: World Bank, Country Briefs (as of Sept. 15, 1987) Vol. II, p. 1; (b) Growth rates refer to the 1970-1974 period; the 1974-80 period; and the 1980-82 period, cited in World Bank, The Philippines: A Review of External Debt, Nov. 1984.

Overall, in the 1965 to 1980 period, the Philippines achieved substantial economic growth. Real GNP grew 5.5 percent annually from 1965 through 1973, and 6.3 percent from 1973 to 1980. However, balance of payments deficits became an increasingly serious problem. The oil price rise, the strong and growing import bias of the economy, and the rapid expansion of government investment without a complementary rise in the level of domestic savings -- led to serious structural problems in the economy.

B. The Phase of Decline, Crisis and Adjustment: 1980-1987

GNP growth in the Philippines underwent an abrupt decline in the 1980s, dropping to 2.8 percent real growth annually in 1980-83 period; to -7.2 percent in 1984; to -4.1 percent in 1985 and recovering only to 1.5 percent in 1986. The severe deterioration in economic conditions was due to both external and internal factors.

Decline

A critical indicator of this economic deterioration was the rapidly growing balance of payments deficit, which widened from 0.2 percent of GNP ($54 million) in 1979 to more than 5 percent of GNP (over $2 billion) by 1983. Several factors contributed to this deficit situation. First, the country's terms of trade declined by 32 percent between 1979 and 1983. Following the second oil crisis of 1979, oil prices increased again and primary commodity prices declined largely due to the recession in the developed countries. Shrinking markets, given the recession abroad and the appreciating exchange rate, limited the sustained rapid growth of manufactured exports.

A second factor was the skyrocketing costs of servicing the external debt; annual interest payments on external loans increased four times over from $397 million in 1979 to $1.65 billion in 1982. A third factor was the abrupt drop of foreign capital inflows as international banks cut off the Philippines from lines of credit in 1983. The effect was to seriously limit the capacity of the government to cover its current account deficit. Another contributing factor was the Marcos government's channeling large amounts of official resources for non-productive purposes, both domestically and abroad.

These external sector problems had a seriously negative effect on the domestic economy. The recession led to a severe decline in the industrial and commercial sectors of the economy. Double digit inflation became commonplace in the early 1980s. Moreover, policies associated with the growth of the economy in the 1970s --industrial protection, agricultural price controls, foreign exchange and credit allocation policies -- had created a number of distortions on the economy limiting future growth. One example was the sustained overvaluation of the peso relative to the dollar in the 1970s and early 1980s. This overvaluation promoted the sustained import-dependence of the economy, and increased the attractiveness of external borrowing.

As a result, the country had become increasingly vulnerable to the external environment with its lack of policy reforms and heavy dependence on external borrowing, particularly short-term debt, to cover the balance of payments deficit.

In the early phase of this economic decline, the government responded by significantly expanding its investment program to sustain growth, and reduce dependence on energy. Public sector investment increased from six percent of GNP in 1979 to nine percent of GNP in 1982. As was discussed above, the government resorted to external borrowing to finance these increasing expenditures. Between 1979 and 1984, the total level of Philippine debt outstanding nearly doubled, increasing from $13 billion to $24 billion. Moreover, the level of public savings had declined given the tax system's inefficiency and inability to respond to the growth in the tax base. The increase in external indebtedness, compounded by high interest rates in the world financial markets, further accelerated the deterioration of the country's financial condition.

Crisis and Adjustment

The assassination of Benigno Aquino, a former senator, in August 1983 proved to be a watershed as it precipitated the most serious economic and political crisis since World War II, ultimately leading to the fall of the Marcos government. Capital flight in the aftermath of this political event led to massive foreign exchange deficits that could not be offset by the drawing down of international reserves. At one point in 1983, the country had less than the equivalent of one month's imports in international reserves. As credit lines from foreign banks were also reduced, the government was forced to seek a moratorium on external debt payments and begin negotiations for a debt restructuring.

The immediate outcome of the debt moratorium was a drying up of normal trade credits and a devaluation of the peso by almost 50 percent. As a result, the real value of imports fell by 16 percent in 1984 and by a further 23 percent in 1985. In an economy highly dependent on imported capital equipment and raw materials, the effect of this devaluation, especially on manufacturing, was severe. Real GNP declined to record levels, and inflation reached a peak of 50 percent in 1984.

The government came under severe budgetary constraints both as a result of the shrinking of its revenue base and as part of the International Monetary Fund (IMF) stabilization package. The

IMF agreement included ceilings on government budgetary deficits, external debt levels and credit expansion. Between 1983 and 1985, the government reduced public investment by more than 50 percent; in this period, public investment as a percentage of GNP declined from 7.7 percent to 3.6 percent.

Worsening economic and financial conditions were further complicated by the political environment. Widespread political demonstrations, elections for the Batasan (parliament) in May 1984, the deteriorating health of President Marcos, the commission investigating the Aquino assassination -- all contributed to rising political uncertainties. The result was a decline in business confidence and the departure of many foreign investors. In 1984 and 1985, gross domestic capital formation declined by 36 percent and 21 percent respectively.

By 1986, significant changes in the political and economic situation were evident. The snap election called by Marcos in February 1986 set in motion events leading to the four day revolution, the departure of Marcos, and the installation of a new government.

The stabilization program underway since 1984 was also beginning to have an effect on the economy. Tight monetary and fiscal policies led to a sharp decline in inflation, from 50 percent in 1984 down to 23 percent in 1985 and down to 0.8 percent in 1986 (consumer price index). Real growth returned to positive levels, reaching 1.5 percent in 1986. Moreover, the government shifted from a current account deficit position in 1985 to a current account surplus position in 1986. However, in this same period, the Philippines, normally a food surplus country, had become a food scare country and a significant importer of food.

C. Government Expenditures and Foreign Donor Assistance

Several components of the economic context for social service programs in the Philippines merit further discussion. First, as central government, and more recently local government, expenditures are a primary financial resource for the social services, trends in government investment are an important indicator of the absorptive capacity of the government for foreign assistance. Absorptive capacity refers to the ability of the government to make effective use of donor assistance. Second, as foreign donor assistance has also represented a significant source of financing for the social service sector, trends in external support are also relevant.

Government Investment

Throughout the phase of growth, but particularly in the 1970s, the government gave a high priority to expanding the public sector. In the 1960s, public sector investment increased only moderately, ranging from one to two percent of GNP. By the mid-1970s, during the period of rapid growth, government investment had reached six percent of GNP. After the 1979 oil crisis, public sector investment, largely to support import substitution and to reduce energy dependence, rose to nearly nine percent of GNP. Government spending remained high up through 1983, even though GNP growth had slowed to 3.3 percent by 1981.

In the period of stabilization and economic recession, from 1983 to 1985, the government reduced public investment by more than 50 percent; public investment as a percentage of GNP declined from 7.7 percent to 3.6 percent in this same period. Moreover, the fiscal austerity measures included severe reductions in expenditures on operations and maintenance.

The stand-by agreement negotiated with the IMF set specific targets for the reducing budget deficit. However, these measures affected not only the operating budgets of government agencies, but it severely reduced the foreign assistance available to these same agencies. As foreign assistance was a line item in the Philippine budget, any proposed expenditures which would exceed the budget target established in the IMF agreement, including those drawing on foreign assistance, would not be approved by the Ministry of the Budget. Most often, discretionary funding, which was based principally on donor assistance, was cut before the operating expenses (i.e. salaries) of the government agencies were reduced.

Table No. 2
Public Sector Investment, Selected Years
(Pesos billion, constant 1984 prices)

	1979	1981	1983	1985	1987/b
Agriculture	2.9	4.2	3.9	1.8	1.5
Transport	7.1	17.2	10.1	2.4	4.1
Industry	0.5	2.8	1.8	0.4	0.0
Energy	14.6	14.0	12.9	4.7	3.2
Water Supply	2.3	3.9	4.0	1.4	1.5
Education/ Health/Housing	**2.5**	**2.7**	**3.3**	**1.3**	**1.3**
Other	2.0	5.3	6.3	5.4	5.1
Total	32.1	50.2	42.4	17.6	16.8

/b Preliminary Figures
Source: World Bank, The Philippines: Selected Issues in Public Resource Management, Vol. I, 1988, p. 5, Table 2.2.

Foreign Donor Assistance

Another factor affecting government resource allocation has been foreign donor assistance. In the 1970s, foreign donor assistance increased more than five times over, from about $200 million in the early 1970s to more than $1 billion in 1978. In 1980, the one billion dollars in foreign assistance to the Philippines represented about 28 percent of the government's budget. Foreign donor assistance has represented a significant component of government investment.

Table No. 3
Foreign Donor Assistance to the Philippines
Percentage Breakdown, 1977 and 1980

Institution	1977	1980
World Bank	44%	42%
Asian Development Bank	28%	21%
U.S.	13%	7%
Japan	7%	14%
Others	7%	N/A

Sources: A.I.D., The Philippines: Country Development Strategy Statement, FY82, p. 37 and A.I.D., The Philippines: Country Development Strategy Statement, FY1981, p. 29.

In this period, the U.S. went from being the lead actor to being a minor player in the donor community. From 1977 to 1980, the U.S. share of foreign assistance to the Philippines declined from 13% to 7% of the total. Japan's assistance was double the U.S. share. However, the magnitude and scope of the multilateral banks' financial support became a significant influence over the government's development activities. The World Bank extends six times the level of U.S. assistance and the Asian Development Bank extends three times the level of U.S. assistance.

The total volume of foreign donor assistance to the Philippines, particularly the U.S. share, declined in the mid-1980s. Moreover, financing for social services, particularly for recurrent cost expenditure, is expected to continue to decline. However, with the assumption of power of the government of Corazon Aquino, the level of A.I.D. economic assistance to the Philippines increased significantly. Total A.I.D. expenditures doubled, from $114.3 million in 1986 to $211.9 million in 1988. Total loan authorizations and obligations, and grant obligations, more than quadrupled between 1985 and 1986, from $182.9 million to $351.4 million.

D. The Distribution of Growth and Social Indicators

Other aspects of the economic context, which are particularly relevant for the social services sector, are the distribution of the benefits of growth and trends in social indicators.

The Distribution of Growth

Rapid economic growth was not accompanied by a dramatic improvement in the situation of the poor majority in the Philippines. Even though the long term trend in the 1973 to 1980 period has been a decline in the level of poverty, the incidence of poverty in the Philippines is still high and increased significantly between 1980 and 1986. In 1980, the national incidence of poverty was 40 percent; by 1985, this figure had risen to 60 percent.

One factor contributing to sustained poverty in the Philippines, despite rapid growth, has been the relatively high growth of population. Population growth remained at three percent during the 1950s and 1960s, declined to 2.8 percent only in the 1970s, and reached 2.5 percent in 1982. In a country in which more than half of the labor force is employed in agriculture, this rapid population growth has placed increasingly heavy pressure on access to arable land, resulting in a decline in the amount of cultivated and harvested land per capita.

A second factor has been the unequal access to the benefits of rapid agricultural growth. While the agricultural sector as a whole sustained a five percent growth throughout the 1970s, some producers of traditional crops (i.e. corn) for the local market were not the beneficiaries of high growth. For example, corn producers had low yields and low income relative to producers of commercial crops for export, who were able to generate high yields and high income in the 1970s.

A third factor has been the decline in real wages as high rates of inflation in the early 1960s, early 1970s and early 1980s, had a strongly adverse effect on real incomes. In the most recent period of high inflation and recession, income per capita declined by about 15 percent between 1982 and 1985.

Another factor contributing to sustained poverty in the Philippines has been the limited capacity of capital-intensive and protected industrial development to absorb labor. The slow growth of employment opportunities in manufacturing led to a high proportion of labor being absorbed by agriculture and services at a low or declining value added per worker.

Finally, investment and growth in the Philippines have sustained a high level of regional disparities. Rapid growth has not overcome the marked difference in the resource base among regions. Rather the tendency has been for public investment to be diverted from the regions with poor resource endowments and high population growth, exacerbating poverty levels in these regions. The investment expansion has exacerbated regional disparities, favoring Luzon and Metro-Manila in particular.

Trends in Social Indicators

Despite the sustained incidence of poverty in the Philippines, there have been a number of important improvements in the health and nutritional status of the population between 1960 and 1982. However, the results in the population sector have been less encouraging.

Life expectancy at birth increased from 49 years in 1960 to 61 years in 1979, and crude death rates dropped from 18 per thousand in 1960 to 7 per thousand in 1982. Infant mortality declined significantly from 106 in 1960 to 58 in 1980 (51 in 1982). These improvements in the health status of the Philippine population are significant and are expected to continue. However, one health area that warrants sustained attention is maternal and infant mortality, which has leveled off since the mid-1970s.

While the overall nutrition status of the Philippine population also appears to have improved, the nutritional status of poor and those not reached by government services has not improved. Moreover, the population in regions which are not urbanized nor in Luzon have a lower food intake.

The most disturbing trends are in the population area. It is evident that population pressures are mounting rapidly. The total fertility rate in the Philippines has declined from 6.62 in 1960 to 4.2 in 1982. However, it has stabilized at this level and is the highest of the ASEAN countries. There has been little to no drop in fertility in those regions which are not highly urbanized. As a result, the rapid drop in infant mortality and the slow decline in fertility indicate a substantial rise in the population of reproductive age. Between 1960 and 1982, the Philippine population nearly doubled in size, from 27 million to 50 million. The population is expected to reach 75 million by the year 2000, 100 million by 2015 and 127 million by 2075.

E. Concluding Remarks

This discussion of the economic context in the Philippines over the last two decades points to several economic conditions which are important to the development of the social service sector and the evolution of A.I.D. social service portfolio.

First, the overview of the macroeconomic context points to severe fluctuations in government revenues, specifically in its balance of payments during the periods of growth and decline. Given the importance of central government revenues to funding for the social services, this dramatic shift has serious implications for the social services sector. In the Philippines, during the phase of growth, rising revenues from exports and external borrowing permitted a sustained expansion of government investment.

However, declining terms of trade, rising costs of servicing the debt and a halt in foreign financing contributed to a serious balance of payments deficit. In effect, the economy had become increasingly vulnerable to the external environment, e.g. foreign markets and the international banking sector, to cover the balance of payments deficit. Even though the government decided to sustain investment during the early years of the decline, the shrinking of the government's revenue base and the stabilization package resulted in a severe decline in government investment.

This discussion suggests that the government had an increasing absorptive capacity during the period of rapid growth and expanding donor assistance. However, with the rising balance of payments deficit in the late 1970s, the government's absorptive capacity became significantly more limited. With the fiscal crisis in the 1980s, the government's absorptive capacity plummeted. Moroever, the stand-by negotiated with the IMF severely reduced the foreign assistance available. As foreign assistance was a line item in the Philippine budget, any proposed expenditures which would exceed the budget target established in the IMF agreement, including those drawing on foreign assistance, In addition, the decreasing availability of donor funds in the mid-1980s placed additional financial constraints on the government.

Second, other macroeconomic factors, such as high inflation and severe devaluations in the 1980s, also affected the evolution of the social services program. Given the significant recurrent costs (e.g. salaries, maintenance) associated with population, health, nutrition, and education programs, high inflation might sharply increase the long-term recurrent costs and undermine implementation of social service programs. Similarly, given the large volume of foreign assistance extended in dollars which would be converted to _pesos_, devaluation affected the project budget estimates by increasing the _pesos_ available and restricting the volume of dollar disbursements.

A third factor emerging from this analysis of the economic context, which has important implications for the social service sector, is the distribution of benefits of growth. Rapid economic growth, given significant increases in population, has not resulted in meaningful improvements in income _per capita_.

Rather it has not been able to eliminate the heavy incidence of poverty. Moreover, rapid growth has sustained a high level of regional disparities, resulting in an exacerbation of poverty levels particularly in rural, underdeveloped areas. For the social services sector, these aspects of the Philippine economic context pose considerable constraints on social service delivery, particularly on a significant expansion of services to rural areas and on increasing outlays by local governments and private households in remote areas.

III. TRENDS IN SOCIAL SERVICE SECTOR DEVELOPMENT

This section reviews general trends in the social service sector in Philippines over the last two decades. It addresses government policy and institutional developments in the population, health, and nutrition sectors. The section examines trends in social service expenditures, and presents some concluding remarks.

A. Government Policies and Social Service Sector Development

In the 1960s and early 1970s, the Philippine government placed primary emphasis on promoting industrial development, and largely neglected the rural population and agricultural sector. In this period, foreign donors, principally the U.S., dominated the development of social services programs in the Philippines, The principal exception was education, as the Philippine government consistently placed a high priority on reducing illiteracy. By the mid-1970s, the government reversed its approach and began placing greater emphasis on increasing agricultural output, expanding agricultural and infrastructural investment, and supporting the provision of social services.

Social service sector development has focused over the past two decades on population planning; health; nutrition; water supply and sanitation; and education. This discussion of trends in social service sector development will focus only on sectoral areas in which A.I.D. has extended substantial resources: population planning; health; and nutrition. While A.I.D. has also extended project support for water supply and sanitation and to a very limited extent education, this discussion will not address these sectors given the limited documentation available.

1. Population Planning

Even though modest family planning programs were underway in the late 1960s, the government of President Marcos did not declare a reduction in population growth a priority of his administration until 1970. The government established a National Commission on Population (POPCOM), with public and private sector representation, to develop an integrated population policy and to coordinate population programs. Reducing fertility and making contraceptive services available nationwide became stated government priorities, which represented a significant shift from the pronatalist policies of the past.

In the 1970s, this population program underwent massive growth and a significant expansion in its scope of activities. Initially, attention was directed to expanding the clinic-based service delivery structure. Subsequently, the GOP launched a national population outreach program, which sought to provide contraceptive techniques and sterilization services to a predominately rural population through the use of full-time motivators. By 1980, service delivery by other government and private agencies became an important component of the family planning sector.

The rapid growth and wide-ranging scope of the family planning sector has raised a number of issues relevant to its development. One problem has been the multiplicity of implementing institutions, leading to the potential duplication of functions and staff, and competition over scarce resources. By 1983, approximately 40 public and private agencies were engaged in population-related activities in the Philippines (i.e. POPCOM, the Ministry of Health (MOH), other ministries, the National Economic Development Agency (NEDA), and private agencies.)

Moreover, there has been a tendency in the population program to give insufficient attention to sustainability. In the Philippines, high level attention was often diverted from one "bandwagon" to the next and was not focused on managing existing institutions. For example, POPCOM, the principal population institution, was bounced from ministry to ministry as the government could not decide which ministry was responsible. It finally ended up in the Ministry of Social Welfare, the agency with the least political clout and prestige.

Another issue is the growing lack of an integrated population policy. A factor contributing to this increasing policy fragmentation has been the large number and diversity of activities carried out by the many implementing institutions.

A third issue has been the lack of consistency of the policy's increasingly ambitious targets for population growth with the level of resources available and with the family planning programs underway. This problem was exacerbated by the fact that in the early 1980s, the gap between the stated population policy and the execution of this policy had expanded considerably.

Finally, another issue was the declining government political support for the population program in the mid-1980s. In this strongly Catholic country, the changeover in management of the Ministry of Planning to a member of Opus Dei and a vocal natalist was one indication of the decline of government support for the population program. More important was the Marcoses' increasing unwillingness to push family planning as a priority since the Catholic Church was both a strong voice against population planning and a major political force strongly opposed to the Marcos administration.

In sum, the government's ambitious population planning policy created a series of second generation problems, e.g. institutional multiplication, policy fragmentation, and insufficent financial resources for sustained implementation. Moreover, this situation has become more complex in the 1980s, given the serious lack of government support for population planning.

2. Health

Since the early 1970s, government policy has placed a strong emphasis on the extension of basic health services to poor people in rural areas. Primary health care has been a principal focus of follow-on development plans. Attention has concentrated on such problems as communicable diseases and malnutrition, poor sanitation, a rapidly growing population, and the increasing incidence of degenerative diseases and accidents.

The government has expanded significantly the provision of health services in general and relied increasingly on community and rural outreach to increase access. Since 1979, the government's policy has been to integrate primary health care services on a nationwide, permanent basis. In 1981, the government accelerated this process, aiming at national primary health care coverage by 1983, instead of the year 2000 as originally projected.

The effect of this policy of national primary health care coverage has been a rapid and wide-ranging expansion of health services "in an unplanned manner [over the last decade] as the Government responded to changing priorities and to increasing demands, especially from the rural population." (World Bank, 1984, p.65) The result has been a system of overlapping vertical and integrated health services. A study of the Ministry of Health (MOH) in 1979 found that the health delivery system was excessively centralized; fragmented and duplicating the functions of other services and units; unable to establish strong links between the central and field units; and marked by functional isolation between health and medical services; and between rural health and vertical programs (World Bank, 1984, p. 46).

In 1982, the government initiated several organizational reforms to encourage decentralization of health services. These included: (a) the elimination of vertical programs and the integration of field staffs into provincial health offices; (b) the delegation of financial and administrative responsibility for the execution of health services to the provincial level; and (c) the integration of provincial hospital and health services. A World Bank study commented:

> Effective implementation of MOH's decentralization will demand substantial institution-building efforts at regional and provincial levels... The central issue to be resolved, however, is that decentralization cannot be carried out without substantial strengthening of the regional and provincial administrations, both in terms of staff employed and their capacity to undertake a decentralized program. In particular, the present limited capacity of the budget and finance staff, especially at the provincial level, is likely to be overstrained by decentralization (World Bank, 1984, p. 47). (underlining added)

Another issue arising with the push towards decentralization of health care has been the heavy reliance of rural primary health care services on part-time village volunteers [Barangay Health Workers (BHW)], whose services are of questionable quality. The dilemma that the Philippine government and governments in many developing countries face in rural areas is how to provide high quality services without incurring excessive costs (World Bank, 1984, p. 65).

The 1983-87 development plan places even more emphasis on primary health care and decentralization of health services. However, the policy issue is still whether more attention should be placed on improving access to health services or to raising the quality of health services and increasing the use of existing facilities.

3. Nutrition

In the area of nutrition, the government adopted similar wide-ranging and comprehensive policies. The government's long term nutrition policy in the 1970s was to eradicate undernourishment, drawing on all types of interventions in a coordinated effort. A National Nutrition Council was established in 1974 to coordinate and direct nutritional activities nationwide. The priority was to increase total food availabilities by five percent to fill to food deficit for the country's seven million most seriously undernourished children. The government expected to make up this food deficit through increased food donations, local food production and food imports.

By 1978, the government had developed a Philippine Nutrition Plan, whose objective was to: improve the nutrition status of vulnerable groups (infants, children, pregnant and lactating mothers); prevent malnutrition and rehabilitate malnourished groups; improve the economic sufficiency of poor families; and stimulate the demand for and use of indigenous nutritious foods through nutrition education. The goals for the next five years were to improve the national nutrition situation by reducing malnutrition among preschoolers by 4 percent; reducing malnutrition among school children by 3 percent; and preventing the occurrence of malnutrition among the general population.

However, once again, there is a gap between these ambitious policy objectives and targets, and the programs and resources for achieving them.

> The coverage and effectiveness of existing program activities and the level of resources required for meeting targets need to be carefully reviewed. Preliminary indications are that greatly increased resources would be needed in the future. Further, there is inadequate consideration of the organizational and managerial requirements of implementing existing programs: the present organization appears too weak for implementing programs on a wide scale (World Bank, 1984, p.71).

It should be stressed that this tendency to present overblown objectives, in the face of modest resources, is typical of the Philippines in many program areas, not only in the area of nutrition.

B. Trends in Social Services Expenditures

Philippine government expenditures for social services (education, health) have been modest relative to other developing countries. In the 1960s, a period of relatively low GNP growth, the government devoted 34 percent of its total expenditures to social services, which was targeted principally for education, while investment in health and other social sectors was insignificant.

In mid-1970s, with the rapid rise in government investment, government expenditures on social services declined as a share of total expenditures to 18.6 percent in 1974 and dropping to 17 percent in 1980. The government devoted its resources primarily to support investment for industrial development and increasingly to service the foreign debt. Nonetheless, government expenditures on family planning, health and nutrition in the Philippines rose significantly in the 1970s from a minimal base in the 1960s.

Between 1969 and 1982, the government increased spending on population activities from less than US$200,000 to over US$33 million -- almost US$9 million annually. After near total dependence on donor assistance for its population program in its early years, the government of the Philippines progressively increased its share of the costs to two-thirds of the total by 1982. Family planning constituted 0.4 percent of the government's recurrent budget in the 1977 to 1982 period. However, the role of external finance is still significant for the population sector, particularly for the Commission on Population (POPCOM) where it represents 46 percent of POPCOM's budget.

Similarly, Ministry of Health (MOH) expenditures rose by an average of nine percent annually in real terms, between 1975 and 1981, from $73 million to $219.7 million. Hospital services constituted the largest and a growing proportion of total health expenditures. However, promotional and preventative care benefitted proportionally less from government spending. These expenditures also tended not to benefit regions with relatively high poverty levels (Western and Central Visayas, Western and Southern Mindinao). Finally, despite this expansion of funds, the health ministry's cost recovery capacity deteriorated. Revenues declined from 12 percent of current expenditure to 8 percent between 1978 and 1982, according to a recent World Bank study (World Bank, 1984, p.4).

Government expenditure on nutrition programs also increased between 1978 and 1981, 24 percent in real terms. However, as much of this investment is stretched among several ministries, it appears that this rise is the result of reclassification and not a significant change in emphasis.

Table No. 4
National Government Social Expenditures
(percent of total government expenditures)

	1982	1983	1984	1985	1986	1987
Social Services	20.2	16.7	22.4	15.7	15.7	18.4
Education	15.1	11.9	18.9	12.0	12.3	14.7
Health	5.1	4.8	3.5	3.7	3.4	3.7

Sources: Department of Management and Budget, Government of the Philippines, cited in World Bank, The Philippines: Selected Issues in Public Resource Management, Vol. I: Main Report, April 15, 1988, p. 34.

After this period of growth in social service spending, national government expenditures on social services (education and health) plummeted during the economic crisis between 1983 and 1985. Government expenditures on health rose only 0.4 percent annually in real terms between 1982 and 1987; education grew 6.4 percent annually in real terms in this same period. Moreover, government expenditures on social services -- health in particular -- declined once again as a percentage of total government expenditures. Declining government support for population planning in the 1980s may have also been a factor.

Another important trend is the pattern of modest expenditures by local governments on population, health and nutrition, relative to central government expenditures. Even though population, health and nutrition accounted for an increasing proportion of total local government expenditure from 1976 to 1979, the combined expenditure of local authorities in 1982 was less than one-tenth of the central government expenditure. Moreover, Ministry of Health estimates of regional per capita health expenditures, cited in a World Bank study, indicate that health expenditures have overwhelming favored the national capital region.

This trend is significant as the primary thrust of the government's population, health and nutrition program is to decentralize primary health care and to integrate these services at the local level. This becomes increasingly important as local government's expenditures for social services declined in the 1980s, even though the policy emphasis was to sustain decentralization.

Table No. 5
Expenditure on Population, Health and Nutrition
Local Government Expenditure as a Percentage of the Total Local Government Expenditures
1976-1982 (Selected Years)

1976	4.4
1977	3.8
1978	5.4
1979	7.7
1980	6.4
1981	5.5
1982	4.7

Source: World Bank, 1984, Vol. II, p.80

A review of government expenditures on population, health and nutrition in the 1980s indicates that the economic crisis and the austerity measures had a particularly severe effect on social services programs.

- real expenditures on family planning declined from 1981 to 1985 at an average annual rate of about 8 percent.
- real health expenditure rose sharply in 1983 and declined an average of 22 percent the next two years.
- real nutrition expenditure was cut in half between 1981 and 1982.

Per capita public expenditures on population, health and nutrition also declined steadily in real terms in the 1980 to 1986 period.

Table No. 6
Per Capita Expenditures
on Population, Health and Nutrition
(Constant Pesos, 1980 Prices)

	Population	Health	Nutrition	Total
1980	1.4	39.2	3.4	44.0
1982	3.0	47.5	2.5	52.9
1984	2.4	30.7	3.4	36.5
1986	2.5	35.8	3.9	42.1

Source: Statistical Annex Tables 11.1 and 11.14 in World Bank, Vol. I, 1988, p. 54.

In the 1980 to 1986 period, population, health and nutrition expenditures were minimal, averaging less than one percent of GNP. In most developed and developing countries, a World Bank study found that government expenditure on health alone averaged between two and twelve percent of GNP. (World Bank, The Philippines, Selected Issues in Public Resource Management, April 15, 1988, p. 54 cited "Financing Health Services in Developing Countries, An Agenda for Reform," A World Bank Policy Study, April 1987.) By 1986, expenditures in all social service sectors made a modest recovery, but they were still less in real terms than was the case in 1983.

Concluding Remarks

The evolution of government social services sector and expenditures points to several significant trends. One trend is the ambitious wide-ranging scope of the government's social services policies and programs relative to declining government resources allocated for these services, particularly in the 1980s.

An important, related problem is the declining absorptive capacity of the central and local governments for foreign assistance. The data on national and local government expenditure for social services points to a severe drop in the 1980s.

Another trend is that government commitment based on budget allocations shows that the highest priority is accorded to investment for infrastructure and economic growth, while budget shares allocated to social services, including population, health and nutrition, are low and have declined relative to other sectors of the economy.

A third trend is the heavy demand for and the high cost of providing social services in rural areas relative to the established pattern of resource allocation for social services, which is highly centralized and urban-biased. This trend is exacerbated by the pattern of modest expenditures by local governments on population, health and nutrition, relative to central government expenditures.

IV. THE EVOLUTION OF A.I.D.'S DEVELOPMENT STRATEGY AND SOCIAL SERVICES PROGRAM IN THE PHILIPPINES

An examination of the evolution of the A.I.D. social services program over periods of growth, transition and decline suggests that the A.I.D. program has been sensitive to changing macroeconomic conditions. However, a significant readjustment of A.I.D.'s strategy did not emerge until the country was in a state of economic and political crisis.

A. Growth Phase: A Supply Orientation towards Social Services

In the aftermath of World War II, the United States concentrated on repairing the war damage and physically rehabilitating the country, and subsequently with formally establishing a foreign aid program. Social services were not a primary concern of the U.S. foreign assistance program until 1965.

From 1965 through the mid-1970's, the A.I.D. program in the Philippines aimed to promote "balanced growth" largely to overcome the urban, industrial bias of the government's development strategy. As a result, the emphasis of the U.S. program was on family planning and nutrition, agricultural production and reform, promotion of rural industry, development of basic infrastructure, expansion of basic industries, and increasing participation in development. Education was not an emphasis as the government had already targeted resources to this sector to combat illiteracy. Moreover, A.I.D.'s focus on the rural poor effectively precluded any significant support to urban-related activities, such as sites and services for low income housing.

In this growth phase, the first and most critical focus of A.I.D.'s program was reducing rapid population growth through the provision of family planning services by government and private agencies. Without the U.S.'s substantial support in this phase, it is unclear whether the Philippines would have a population program today. At its inception, the goal of this initiative was near total contraceptive availability and coverage by 1974, but A.I.D. scaled back its expectations in 1975 to 80 percent availability and coverage.

Improved nutrition was considered integral to the success of the family planning initiative. Nutrition was a long-standing concern of U.S. foreign assistance, dating back to the government's Nutrition Support Program in the 1950s. In the 1960s, the focus of A.I.D. program was alleviating severe malnutrition among pre-school children with Title II and Title II funds.

In the early phase of the population and nutrition programs, A.I.D. was the primary source of funding, while government financial support was minimal. A.I.D. anticipated that U.S. funding for these social services would be phased out or considerably reduced over time, as A.I.D. assumed that the government would increase its share of the costs. A.I.D.'s assumption in this growth period was that sufficient counterpart resources would be available given an expansion of domestic savings, rising private sector and government investment, and a relatively stable balance of payments situation. In the 1970s, A.I.D.'s share of the funding for the population program had declined from almost 100 percent to 20 percent of the total cost, since the government assumed a larger proportion of the costs for the program.

In short, in this growth phase, A.I.D.'s program was sensitive to the economic context as the program gave priority to controlling the rate of population growth which was recognized as a key factor in sustaining or raising <u>per capita</u> income even with rapid economic growth. A.I.D.'s assistance played a central role in establishing population, health and nutrition services, an important accomplishment since the Philippine government was initially unwilling or unable to extend such support.

In this phase, A.I.D.'s strategy was supply-oriented focused on the provision of family planning and nutrition support. A.I.D.'s social service program considered rapid population growth and malnutrition to be problems which could be solved in the foreseeable future with a large scale, nation-wide and U.S.-financed effort. Given rapidly rising growth rates, the operating assumption of the A.I.D. social services program was that the government had an unlimited absorptive capacity and would be able to cover recurrent costs increasingly over time.

B. Social Service Outreach and Financial Constraints: The Transition Period

In the early 1980s, A.I.D. proposed a new direction for its development strategy in the Philippines. The FY1982 CDSS (January 1980) presented an analysis of the dimensions, nature and determinants of poverty and focused on the need to re-orient the foreign assistance program towards employment generation. Sustained and more productive employment became the long-term strategic goal. The objectives of the strategy (as presented in the expanded FY1983 CDSS) included:

- promotion of more productive agricultural employment in rain-fed areas;
- creation of non-farm employment opportunities for those who are not productively employed in agriculture.
- development of a more productive rural labor force for the future by focusing on the current generation of infants and pre-schoolers.

The core development assistance programs were: rainfed resources development; rural private enterprise development; local resources management; and fertility and infant/child mortality reduction.

At this point, in contrast to earlier phases, A.I.D. chose to define its role as a "catalyst and risk-taker" in developing program activities. In the past, A.I.D.'s massive support for nationwide initiatives, such as family planning, led to a role as a major player in the development assistance community. By the mid-1970s, A.I.D. found it could not compete financially with other major donors, such as the World Bank, the Asian Development Bank and Japan. Increasingly, A.I.D. presented itself as the "principal innovator" working with the GOP to improve resource allocation and performance.

A.I.D. program also adopted a regional focus based on poverty criteria: (a) to effectively reach select target groups, such as landless agricultural workers, upland farmers and artisanal fishermen, and (b) to concentrate A.I.D.'s resources and increase effectiveness in achieving its basic human needs objectives.

However, unlike the other program elements, the population, health and nutrition (PHN) sector was to sustain a nationwide focus with some regional concentration. While reduction in the rate of growth of the labor force remained an integral objective of the Mission's strategy, A.I.D. limited the focus of its program to fertility and infant/child mortality reduction.

The A.I.D. Multi-Year Population Strategy Statement, issued in 1979, had objectives beyond just increasing the supply of family planning and other social services. <u>The strategy incorporated improvement of the cost-effectiveness of Population, Health and Nutrition (PHN) service delivery, exploration of ways to better integrate population, health and nutrition, and testing methods of financing of primary care as new objectives</u>.

Concern for the cost-effectiveness of PHN service delivery led to the CDSS issued in 1981 to support the integration of maternal and child health care, nutrition and family planning services.

> The immediate and long-term cost implications of these separate and often overlapping [vertical social service delivery] systems are considerable. ...Thus, maternal and child health care, nutrition and family planning, when conceived as a package of primary health care, can achieve greater impact than can be achieved when they are planned and delivered separately (A.I.D., 1981, p. 51).

Moreover, the PHN strategy was explicitly concerned with the financing of primary care.

> The full costs of developing and sustaining a comprehensive primary care program are well beyond the Government's ability to finance, even with assistance from the international development banks and our own more limited resources. In the final analysis, most of the costs of a quality primary care system in the Philippines will have to be absorbed by the communities in which the services are delivered (A.I.D., 1981, p. 51).

A.I.D. proposed to assist the Philippines to "systematically explore alternative mechanisms for the financing of an integrated primary health care delivery system" (A.I.D., 1981, p. 51). Projects directed toward this purpose include the Bicol Integrated Health, Nutrition and Population (HNP) and Panay United Services for Health Projects and the proposed Local Resources Management Project.

Moreover, the Mission's strategy statement pointed to specific limitations of the impact of direct service programs on fertility and mortality. It drew attention to the importance of socio-economic factors (e.g. changes in income, educational level, etc.) in determining fertility and mortality, as well as to the difficulty of providing access to the poorest and least developed areas.

<u>This programmatic concern for cost-effectiveness, the financing of social service program, and raising income and education levels to reduce fertility and malnutrition appear to be responses to the changing economic context.</u> However, it is unclear to what extent they may be responses to changing A.I.D./Washington policy guidance.

<u>The Mission had also become increasingly concerned with the limited absorptive capacity of the government.</u> In 1980, the Mission stated that "the assumption [that Philippine absorptive capacity was infinite] is now being challenged by the rising debt service ratio and the recent <u>peso</u> counterpart funding shortfalls for donor programs" (A.I.D., 1980, p. 35).

The Mission recognized a number of institutional constraints to effective resource use, which were related to the very rapid expansion of social services system in the early growth phase. These included the proliferation of implementing agencies, the uneven administrative capacity, and overly centralized decision-making and administrative control.

In sum, in this transition period, A.I.D. sustained a nationwide focus and an outreach orientation in its population, health and nutrition program. A.I.D. considered the costs of a national program for population planning modest and manageable, relative to other development programs.

However, at the same time, A.I.D. was becoming increasingly sensitive to specific aspects of the economic context for social services. First, the A.I.D. program began to focus on the second generation problems resulting from the overexpansion of the social services sector, given the sharp rise in government revenues and donor assistance. Second, the A.I.D. program began to give greater attention to the central government's inability to finance its expanding social services program. Third, the focus of A.I.D.'s strategy began to shift away from a supply orientation to social services toward a demand focus, which gave greater importance to raising income and educational levels as a means to promote population planning.

Again, it is still not clear to what extent these actions are principally responses to the changing economic environment in the Philippines. They may have resulted as reactions to other factors of importance in this period, such as ANE policy guidance on population planning and health, A.I.D.'s Private Sector Initiative, and reassessment of past research findings on fertility and health.

C. The Economic Crisis, Resource Constraints and Reassessment

The severe political and economic crisis in 1983 was a critical factor stimulating A.I.D. to completely reassess its development strategy in the Philippines. At this time, the assassination of Benigno Aquino and the lack of agreement with the International Monetary Fund and bank creditors on policy reforms created a climate of political and economic instability. In 1984, the Mission had intended to develop a new strategy statement responding to the economic crisis, which would incorporate the Economic Support Fund (ESF) program. However, delays in the renegotiation of ESF and the flux created by the crisis compelled the Mission to prepare a preliminary paper, outlining the basis for a future strategy.

This pre-strategy or "Lines of Inquiry" paper focused on the current economic and political crisis and its effect on the evolution of the Mission's strategy. First, it documented modifications of the existing program which appear to be responses to the rapidly changing economic environmment. The A.I.D. program had shifted away from targeting the poorest groups toward activities which encouraged more broadly based growth in productive employment. The program has been more flexible about the explicit geographic focus for development assistance (DA) funding based on poverty criteria. Also, the Mission had begun using ESF as program assistance to permit greater A.I.D. responsiveness to the Philippine government's macroeconomic problems.

The paper goes beyond previous policy statements in identifying the availability of financing for the recurrent costs of PHN as a critical constraint to increasing the availability of family planning and Maternal/Child Health (MCH) services at village level. The paper argues that the current strategy's focus on community resource mobilization and institutionalizing the family planning program is inadequate.

> It is now necessary to incorporate lessons learned over the past several years into a revalidation and refinement of our strategy in the face of a resource constrained environment now and for the next several years (A.I.D., CDSS FY1986, p.20).

However, in April 1985, the Mission presented a fundamental revision of its strategy for the foreign assistance program and issued a classified strategy statement strongly critical of the Marcos administation. After the installation of the Corazon Aquino government in 1987, the Mission presented an unclassifed update of this CDSS. <u>The underlying assumption of the strategy was that a market-oriented, private sector-led approach is critical for reinitiating growth in the Philippines</u>. The Mission's strategy gives priority to policy dialogue to achieve macroeconomic policy reform, and to selectively condition financial assistance to encourage such reform. The Mission will continue to use non-bases ESF support to promote such policy reform and finance specific project activities. A second priority is promotion of growth in the rural economy, largely through support of structural reforms in the agricultural sector. The third component aims to improve service delivery efficiency through increased reliance on the private sector and enhance cost-effectiveness of government programs in the population, health, and nutrition sectors.

In this phase of economic crisis and decline, A.I.D. expenditures for social services, specifically population planning and health declined substantiallly. The A.I.D. social service program was directed toward using food assistance and child survival programs to support political stability and economic revitalization. In addressing the growing problem of malnutrition, the Mission sought with a modest approach to lessen the magnitude of the malnutrition problem, using technical assistance, child survival and P.L. 480 inputs.

In the health area, A.I.D. will incorporate the Child Survival activities and continue to support programs to reduce infant mortality, through oral rehydration, immunization, maternal child health services, and to improve the effectiveness of rural primary health care systems.

However, the primary emphasis of the A.I.D. program is on supporting economic recovery to more effectively address the malnutrition and infant mortality problems. In contrast to the supply-dominated view to social services of the past, the Mission's view is that malnutrition is largely a function of demand (i.e. the lack of income to buy food) and that the economic crisis which began in 1983 has played a major role in child health and nutrition setback (CDSS FY88, p.61).

In sum, in this phase of economic crisis, A.I.D.'s response was to completely reorient its program strategy. The program effectively discarded the emphasis on increasing access to services and targeted the bulk of its resources, including Economic Support Funds, on supporting policy reform to bring about economic revitalization and on making existing social service delivery systems more cost effective.

V. THE RESPONSIVENESS OF A.I.D.'S SOCIAL SERVICES PROJECTS TO THE CHANGING ECONOMIC CONTEXT: A SELECTIVE DISCUSSION

Over the last two decades, A.I.D. social services program has concentrated on three sectoral areas: population planning; primary health care and water and sanitation projects. This section will examine possible indicators of A.I.D.'s sensitivity and responsiveness to economic conditions at the project level in two sectoral areas: population and health.

A. Population Planning

Population planning has been a priority area for A.I.D. in the Philippines for more than two decades. Between 1967 and 1988, A.I.D. has extended more than $100 million in bilateral assistance for population programs. The principal projects include:

- Population Planning I (FY67-78)
- Population Planning II (FY78-81)
- Population Planning III (FY81-88)
- Population Sector Support (FY89-93)

The first Population Planning project (FY67-FY78) supported the creation of government and private clinics to provide family planning services nationwide with a grant of $5.701 million. A 1974 project revision expanded the scope of the project by endorsing population outreach programs which aimed to reach institutions in the remotest areas. By 1976, the government of the Philippines had received more bilateral family planning assistance from the U.S. than from anywhere in the world.

In this period of growth and relative economic stability, the project documents indicate that A.I.D. was sensitive to the limited political support for a population planning project and to the financial constraints on the government at the project's inception. A.I.D. recognized that extensive external funding would be necessary initially to support the institutionalization of the program. However, A.I.D. projected that with increasing revenues, the Government would assume some of the program expenses over time. A project amendment stipulated that the GOP begin to share in local project costs. Still, the project's operating assumption was that the required resources from the government would be available as needed.

In the mid-1970s, several factors had stimulated interest in a National Population Outreach Program. First, contraceptive prevalence use had reached a plateau after a sustained period of rapid increase in contraceptive prevalence (from 15 to 25 percent). Second, research findings indicated that the probability of contraceptive use was inversely related to the distance from a family planning clinic. Population Planning II (FY78-FY81) was the centerpiece of the national outreach program which represented an effort to provide contraceptive techniques and sterilization services to the rural population through the use of full-time motivators.

This project anticipated that local government authorities would implement a centrally funded program which required the local officials to cover the costs of the project on an increasing basis over the life of the program. However, this outreach project failed to secure sustained political and financial support from local and central government authorities as anticipated. One evaluation found "an absence of...acceptance and accountability [for the outreach program] on many levels" (Sewell, 1980. p. 56). Several evaluations found that local officials were unwilling or unable to cover the program costs and no realistic financial plan was established for the GOP to cover the total program costs. The overall consensus was that "the Outreach Program as presently designed, may not be financially viable, that is, as the local governments are required to assume a heavier share of program costs." (POPCOM et al., 1978, p. 4) In this project, A.I.D. appears to have been insufficiently sensitive to the financial constraints facing local and central government authorities in the late 1970s and early 1980s.

A follow-on project, Population Planning III (FY81-FY88), aimed to reduce the population growth rate, from an estimated 2.3 percent in 1980 to an estimated 2.0 percent in 1985, by providing family planning services outreach to 3.2 million married couples in rural and depressed urban areas. The purpose was to achieve an increase in the contraceptive prevalence rate among married couples of reproductive age from 43 percent in 1980 to 53 percent in 1985 and increase in contraceptive use effectiveness from 81 percent in 1980 to 83.5 percent in 1985.

The design of this project was significantly more cognizant of the high costs of the Outreach Project and of cost effectiveness as a major issue in the population planning program. First, unlike previous population planning project papers (PP), this PP included a detailed presentation of the project's economic feasibility and a financial plan.

Second, this project aimed to be realistic about the revenue generating capacity of local governments, especially since A.I.D. was no longer to provide financial support for the recurrent costs of outreach workers' salaries. The design incorporated the evaluation recommendation that the central government assume a significantly larger proportion of the recurrent outreach costs in the future, given the limited financial capacity of local governments. The project required that the absorption of recurrent costs be a shared responsibility of the national and local governments by the end of the project. However, local governments were still compelled to assume 100 percent of the recurrent Outreach costs by 1985, because of an anticipated shortfall in central government funding.

Third, several components of the Population Planning III project were designed specifically to be more responsive to an increasingly resource constrained economic context. For example, support was budgeted for action-oriented research to test alternative schemes for cost-effective delivery and to implement community incentive schemes.

After five years of implementation, an evaluation found that the project had made slow progress, achieving about half of its targeted goals concerning the contraceptive prevalance rate and use effectiveness. While the original targets were set unrealistically high, the project achievements have been offset by fertility rising faster than the crude birth rate.

First, a critical factor in the evolution of the Population Planning III project has been that its financial plan had unrealistic expectations about the central government's financial capabilities. In the Project Paper, A.I.D. estimated the GOP counterpart to be US$ 65.58 million; however, this estimate fell significantly short of government expenditures, expected to total $27.1 million by the project completion date. While the original costs for the project were substantially overestimated, the GOP did severely reduce its annual expenditure for family planning, from $18 million in 1981 to about half that amount by 1985. Nonetheless, it should be emphasized that, at the time of this project's design, neither A.I.D. nor the government could have fully anticipated the depth and severity of the economic crisis in 1983 and its effect on government expenditures.

Second, after five years of implementation, A.I.D. itself acknowledged that this project had "unrealistic expectations of local government's capabilities" (USAID/Philippines, 1985, Appendix C p. 7). A 1986 evaluation of this project found that actual local government commitments for Outreach costs "have consistently fallen short of their commitments and the gap has widened in the last three years, as commitments have increased and actual contributions have remained stable" (Pullum et al., 1986, p. 22).

Third, the project had not been able to develop or test an alternative plan for cost-effective delivery and only a few income generation schemes were underway. These initiatives had secured little central government support. A 1986 evaluation concluded that such initiatives were top-down and supply-focused in orientation, and recommended that more attention be directed at demand-generation at the household level. "There is a need to provide greater assistance and support to the private sector --

both Private Voluntary Organizations (PVOs) and the commercial sector." (Pullum et al, 1986, p. 55)

Finally, an A.I.D. audit of the Philippine population program in 1985 criticized the Mission for not responding adequately to declining Philippine government political and financial support. Its recommendation was to increase government support by policy dialogue with the government and to increase the cost-effectiveness of the program by combining separate family planning outreach systems under the Ministry of Health.

By 1985, in the later years of the recession, A.I.D. had indeed recognized that budgetary pressure on the government was resulting in a sharp deceleration of project spending (Pullum, 1986, p. 43-44). The evaluation mentioned two key factors influencing the decline. One factor was the limitation placed on GOP expenditures by the stabilization measures. Another was that A.I.D.'s contributions are included in GOP appropriation as <u>pesos</u>, which establishes a <u>peso</u> ceiling. As a result, the effective <u>peso</u> equivalent of the U.S. contribution declined, and was even further reduced by devaluations. The project paper had assumed a constant rate of exchange, but over the life of the project, the local currency has been devalued by about 40 percent relative to the dollar.

<u>A.I.D. became increasingly responsive to the severe shortfalls in project spending as the crisis evolved</u>. A.I.D. deobligated $ 2.8 million of project funds in 1985, since A.I.D.'s obligations of $ 34.43 million in 1985 fell significantly short of the $ 56.75 million originally authorized. Moreover, in response to the very limited absorption capacity of the government, A.I.D. has lowered its expectations about the level of government counterpart contribution. Under the Population Planning III project, the GOP was to contribute 51.6 percent of the total costs. However, in a future Population Support Project, A.I.D. limited the projected government contribution to 30 percent of the program costs. Also, A.I.D. shifted away from using loan funds for its population projects, as was the case in the Population Planning III project, and towards total grant funding, as was the case with the Population Support Project.

Given the political upheaval in 1986 and the change of administration, it has not been possible until recently for A.I.D. to respond to the lack of political commitment and leadership in the population sector. The Aquino administration developed a population policy in 1987 and is in the process of preparing a population strategy. A.I.D. is currently developing a new population sector support project, which is consitent with the new population policy.

Also, A.I.D. has been addressing the issue of cost-effectiveness by supporting the combination of family planning outreach systems under the Ministry of Health. In 1985, the POPCOM and the Ministry of Health were working toward a merger of their outreach systems for family planning services. While a 1985 audit made a specific recommendation for the mission to fully unify these services, the mission's view was that, "While we share the ultimate objective of a combined system, the timing and the manner in which the two systems are merged will be critical to guard against losing gains made under the old system while the fledgling health network is being established and developed (A.I.D., Memorandum: Comments on Draft Audit Report, 1984)

A.I.D.'s new Population Sector Support project will support the strengthening of the Population Commission to improve policy formulation, coordination and monitoring, and will extend directed assistance to Ministry of Health and non-governmental organizations to improve service delivery.

Finally, an evaluation of the population program in the Philippines raises an important question about the impact of these responses to the economic environment on the effectiveness of social services programs themselves.

> <u>Changes in the program...should be based on evidence that they will improve program effectiveness</u>. Such evidence could come from field studies or from programs in other developing countries. <u>Present planning is motivated by administrative and fiscal exigencies (e.g. local government funding and cost recovery) and/or by theoretical expectations (e.g. integrated outreach) rather than by evidence of potential positive impact</u>. (Pullum et. al., 1986, p. ix)

B. <u>Health</u>

A.I.D. health care projects faced many of the same economic constraints confronting the population planning projects discussed above. This section will examine A.I.D. responsiveness to the economic context in three health care projects:

Panay Unified Services for Health (PUSH) Project (FY78-85)
Bicol Integrated Health, Nutrition, and Population Project (FY79-84)
Primary Health Care Financing Project (FY83-89)

In the late 1970s, A.I.D. Health Strategy was to help the GOP design and implement several replicable pilot primary health programs and projects at the barangay level where only a modest amount of services are presently being delivered. Two regional projects -- Panay Unified Services for Health (PUSH) Project and Bicol Integrated Health, Nutrition, and Population Project -- were developed to strengthen the regional health system to deliver integrated services at the community (barangay) level.

In 1978, A.I.D. provided a $5.4 million loan and a $316,000 grant for the PUSH project to assist the government to reinforce the rural health delivery and related water and sanitary services for 600 of the poorest rural communities in the Panay region. In 1980, A.I.D. extended $2.5 million for the Bicol project to improve the quality of life and real per capita incomes of residents of 400 rural barangays in the Bicol region. The design of the Bicol project, developed two years after the PUSH project, placed greater emphasis on making social services available through an economical delivery system and increasing local government financial support for PHN programs. This was one indication of A.I.D.'s growing awareness of the economic context for these projects.

As was the case with the population outreach projects, these projects assumed that the municipalities would accept responsibility for continuing to provide salary support for the Barangay Health Workers (BHWs). However, evaluations of both of these projects found that financial support from government authorities at the provincial and municipal level was weak, and that local governments were increasingly less able to cover these recurrent costs in the future.

The 1983 follow-on Health Care Financing project recognized that:

> the greatest deficiency of [predecessor projects] was in their failure to make adequate provision for long-term financing and their inability to really alter the vertical delivery structures which are in place today, in part because of A.I.D. and other donors. The strength of this project is that it reflects the GOP desire to look at these issues analytically and to test solutions" (A.I.D. 1983, p. 28).

This innovative project was to provide research findings to permit national health policies and programs to increase access to and use of sustainable health care services managed and financed by the local entities and the government. One component, the Health Care Financing Schemes, aims to demonstrate advantages of relying on the private sector and suggest ways in which the recurrent costs of PHN services can be shouldered by equitable cost-sharing arrangements. Another component, Special

Studies and Policy Analysis, would provide additional information on the cost-effectiveness of current Ministry of Health programs. The third component, service delivery, focuses only on those areas which support improvement in the financial viability of the health care system.

The project's emphasis on -- sustainability, private sector involvement, cost-sharing for coverage of recurrent costs, cost-effectiveness -- may be indicators of a growing responsiveness to the economic context for social service programs.

However, the changing economic context also had an important effect on the implementation of this project, as a 1986 evaluation documents.

> The present economic difficulties of the Philippines have strained the ability of the government and communities to support specific health activities. This stresses the need to look into other health financing options as well as [to] secure added support for the national health programs. With the changes in MOH priorities for primary health care, and consequently, in the inputs, expected outputs and mix of activities, a review of the project is deemed both timely and necessary (Economic Development Foundation, 1986, p. 10).

Specifically, the release of project funds annually is limited by government spending ceilings. This has constrained the disbursement of funds for the financing schemes and the service delivery component (Economic Development Foundation, 1986, p.46). The fund release mechanism has been a major obstacle. A.I.D. has been devoting considerable resources to addressing this problem.

The evaluation also concluded that changes in the socio-economic context over the past two years (1984-85) have warranted a reexamination of the operating assumptions of the service delivery component. The evaluation recommended that,

> The MOH and USAID may have to consider expanding the support for the service delivery component to cope with the emerging priority needs of the MOH, particularly with regard to the five impact programs...On a more general plane, however, it would be appropriate to modify the Project Document to incorporate the recommendations made and in this report and to review the underlying assumptions within the context of the emerging socio-economic environment. (p. 11)

A.I.D.'s response has been a significant reorientation of the Primary Health Care Financing project in line with these and other evaluation recommendations. One of the recommendations was for a special study on the impact of existing socio-economic conditions on children's health and nutrition status and implications for services needed to respond to these groups. Subsequently, as a result of such a study, A.I.D. has financed targeted health and nutritional support to especially needy groups most affected by the current crisis.

VI. CONCLUSIONS

A review of the economic context, the evolution of the social services sector and A.I.D.'s project portfolio in the Philippines provide a preliminary basis to understand how social services programs and projects responded to periods of rapid growth, economic decline and crisis. In the 1980s, the acute scarcity of resources, both in terms of government revenues and donor assistance, makes such an analysis particularly timely.

An overview of the macroeconomic context over the past two decades points to several key factors which may have an important influence over the economic viability of social service programs.

First, given the importance of central government revenues to funding for the social services, a country's balance of payment situation has serious implications for the social services sector. In the Philippines, severe fluctuations in its balance of payments, were evident during the periods of growth and decline.

This review suggests that the government had an adequate absorptive capacity during the period of rapid growth, expanding donor assistance, and escalating government borrowing. However, with the sharply rising balance of payments deficit in the late 1970s, the government's absorptive capacity became significantly more limited. With the fiscal crisis in the 1980s, the government's absorptive capacity plummeted. <u>As an economy becomes increasingly vulnerable to the external environment to cover the balance of payments deficit, as was the case in the Philippines in the mid-1980s, progam sensitivity and responsiveness to this economic context becomes central to its institutional survival and viability.</u>

Other macroeconomic factors, such as the high inflation and severe devaluations particularly in the 1980s, have also affected the evolution of the social services program, given the significant recurrent costs (e.g. salaries, maintenance) associated with social services programs, and the use of dollar funds for project activity.

Another aspect of the economic context is the distribution of growth. In the Philippines, rapid economic growth, given significant rises in population, has not brought about meaningful improvements in income per capita nor in the level of regional disparities. For the social services sector, these aspects of the Philippine economic context pose considerable constraints on social service delivery, particularly to rural areas, and on efforts to increase outlays by local governments and private households in remote areas.

The evolution of government social services sector and expenditures points to several significant trends. One is the ambitious wide-ranging scope of the government's social services policies and programs relative to declining government resources allocated for these services. Another is that the government expenditures accord a low priority to the social services sector, relative to other sectors in the economy. A third is the heavy demand for and the high cost of providing social services in rural areas relative to the established pattern of resource allocation for social services, which is highly centralized and urban-biased.

An examination of A.I.D.'s program strategy and projects suggests that in the early phase of rapid growth, A.I.D. adopted a very supply-oriented approach focused on the provision of family planning and nutrition support. A.I.D. assumed that the government had an unlimited absorptive capacity to cover these future recurrent costs over time.

From the late 1970s up to the economic crisis in 1983, A.I.D. sustained a nationwide, decentralized focus in its population, health and nutrition program. However, at the same time, A.I.D. was becoming increasingly sensitive to the economic context for social services. Specifically, A.I.D. program began to focus on: (a) the second generation problems resulting from the overexpansion of the social services sector, given the sharp rise in government revenues and donor assistance; (b) the central government's inability to finance its expanding social services program; and (c) the importance of raising income levels to address problems such as fertility, i.e. a focus on increasing demand for social services rather than supply.

By the late 1970s, A.I.D. social services projects began to reassess the financial viability of the outreach programs and to focus on developing economical delivery systems. However, they continued to overestimate the capacity of local governments to cover the recurrent costs of large-scale, decentralized social service programs. Moreover, project design began focusing on alternative schemes for cost-effective delivery, community incentive schemes, sharing of recurrent expenses, private sector involvement.

Following the economic crisis in 1983, A.I.D.'s response was to completely reorient its program strategy. The program effectively discarded the emphasis on increasing the supply of social services and targeted nearly all its resources, including Economic Support Funds, to support economic revitalization largely through policy reform.

In this period, A.I.D. developed a health care financing project specifically aimed at providing research findings to increase the cost-effectiveness and sustainability of the health sector. However, the economic crisis significantly reduced the government and local communities capacity to support specific population and health activities. A.I.D. responded by severely reducing and reorienting its population and health care projects; lowering requirements for cost coverage by the government; and targeting food assistance to support stability and economic recovery.

In closing, A.I.D. was relatively cognizant of the economic environment for its social service program and projects during the period of rapid growth. By launching a family planning program, it recognized the crucial importance of the relationship between reducing fertility and the economic advantages of a reduced labor surplus and decreased pressues on food supply.

By the late 1970s, the A.I.D. social service projects were increasingly responsive to the financial implications of the economic context for these programs, given the proliferation of vertical delivery systems and the high costs associated with the outreach program. However, it was not until the economic crisis that A.I.D. fundamentally revised its foreign assistance strategy with a primary focus on reviving economic growth and modest attention on social services principally as a means to sustain political stability.

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SUPPLEMENTARY ECONOMICS TABLES

RGDP Per Capita:	World Bank On Line Data Base
Export Import Balance:	World Bank World Tables
External Debt over GNP:	World Bank World Tables
Budget Deficit:	World Bank World Tables
Gov't Social Service Spending over GNP:	World Bank World Tables Gov't Finance Statistics Yearbook
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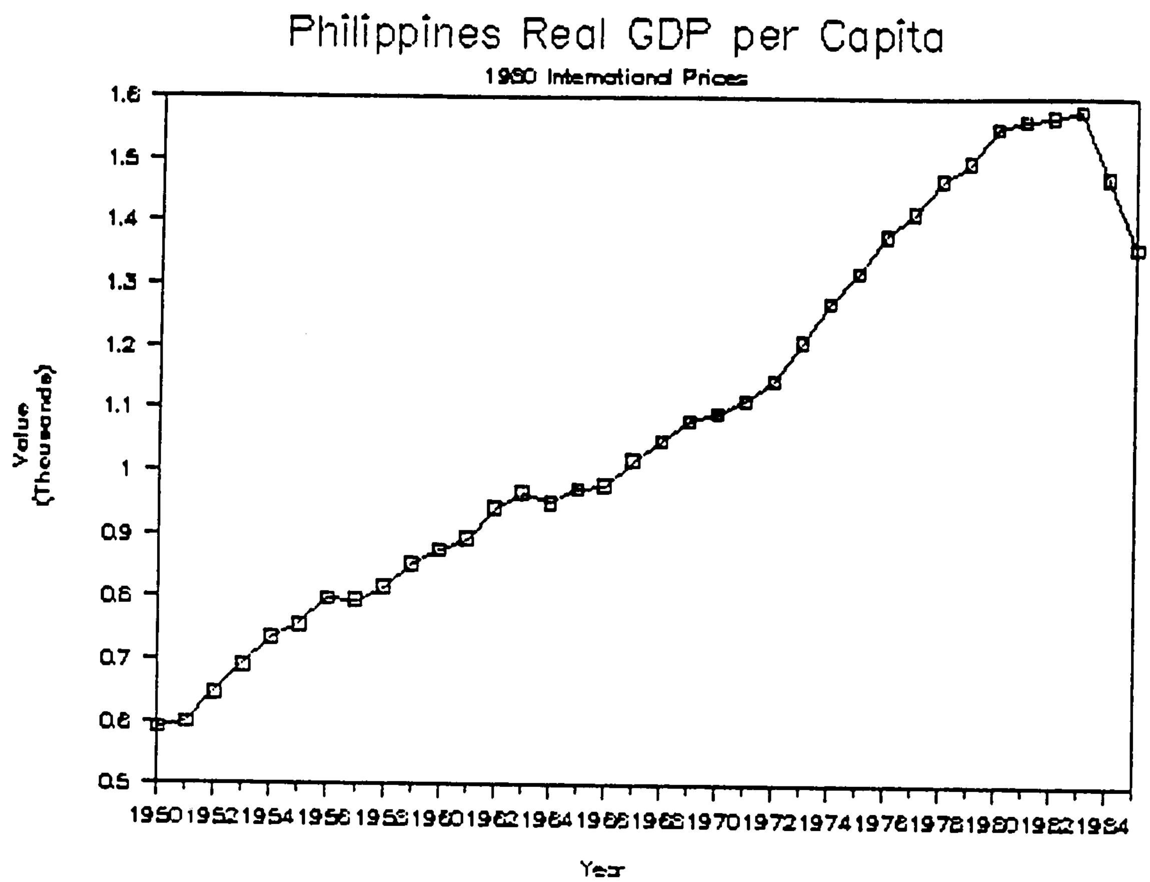
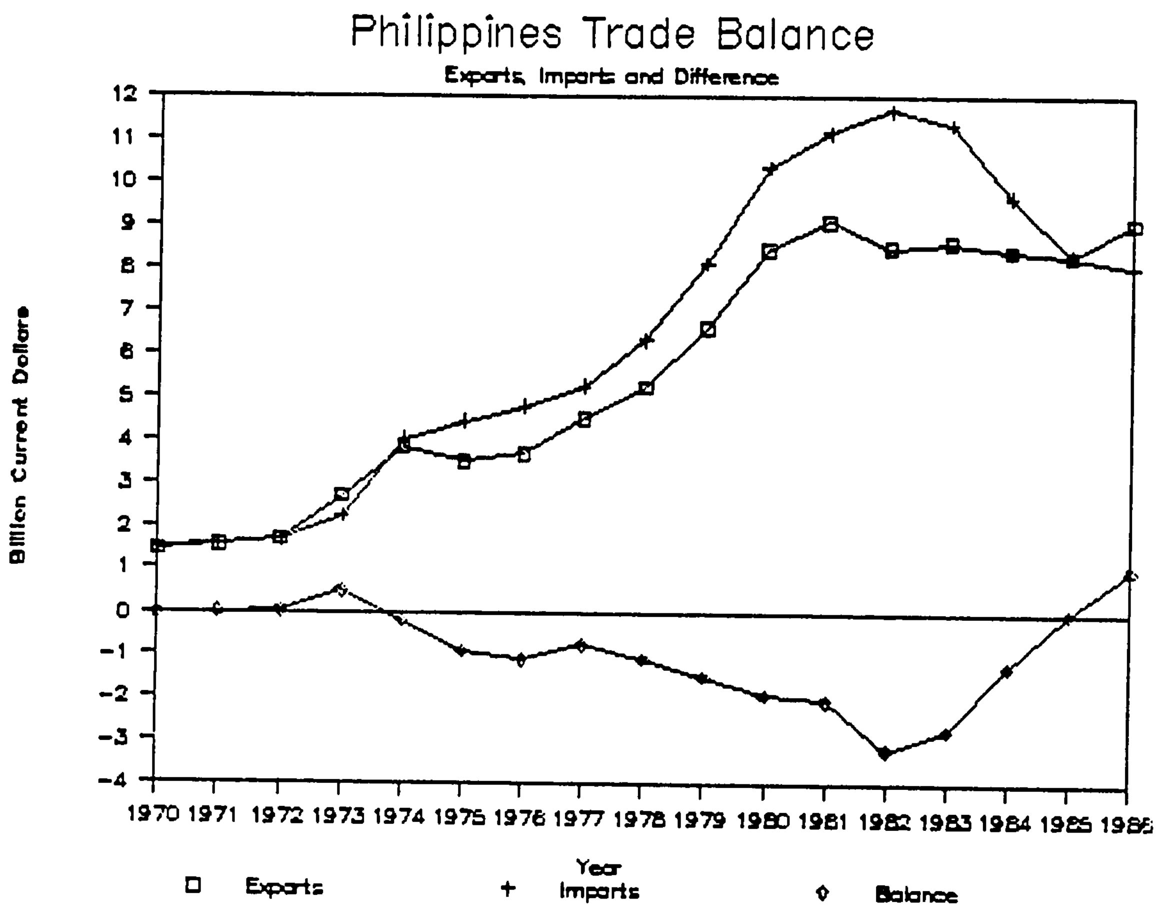
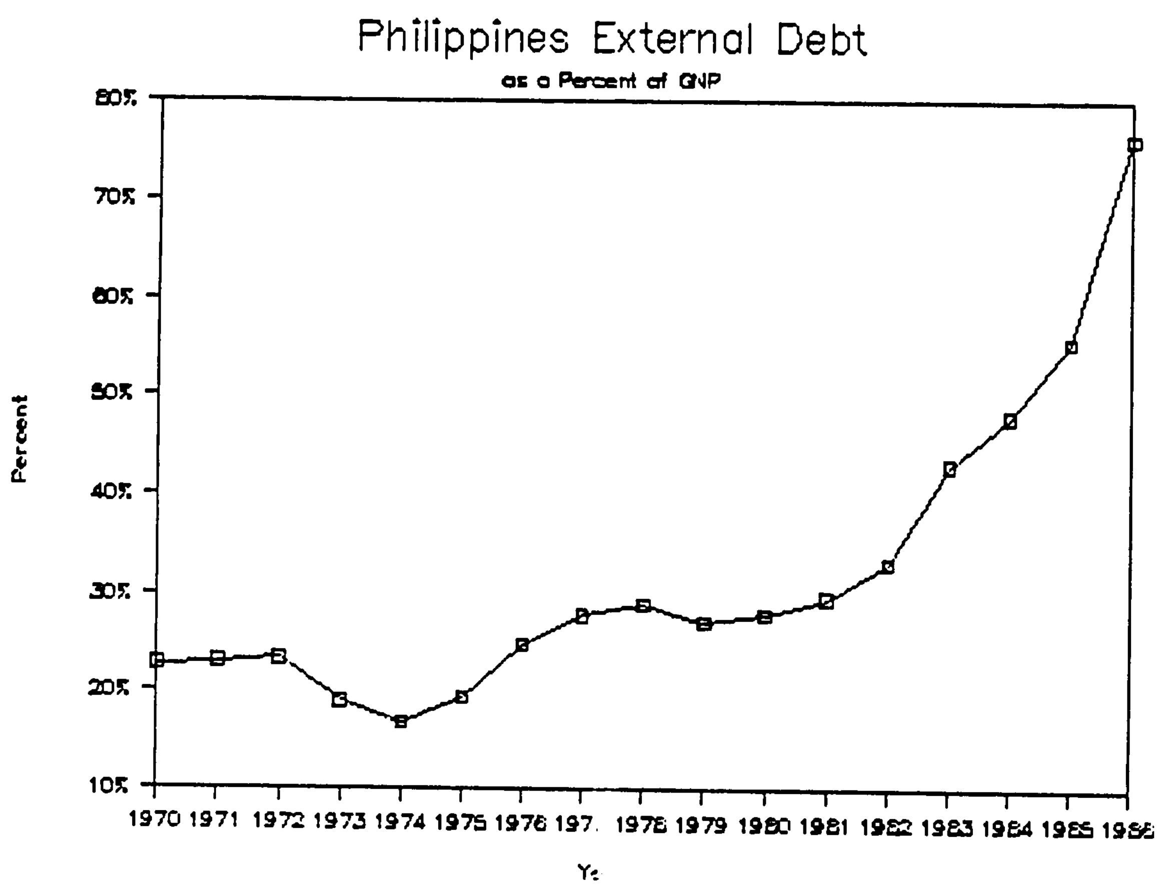


Year	RGDP per capita	Percent Change
1950	591	
1951	598	1.2%
1952	645	7.9%
1953	691	7.1%
1954	734	6.2%
1955	756	3.0%
1956	797	5.4%
1957	795	-0.3%
1958	815	2.5%
1959	852	4.5%
1960	874	2.6%
1961	892	2.1%
1962	941	5.5%
1963	965	2.6%
1964	950	-1.6%
1965	972	2.3%
1966	978	0.6%
1967	1018	4.1%

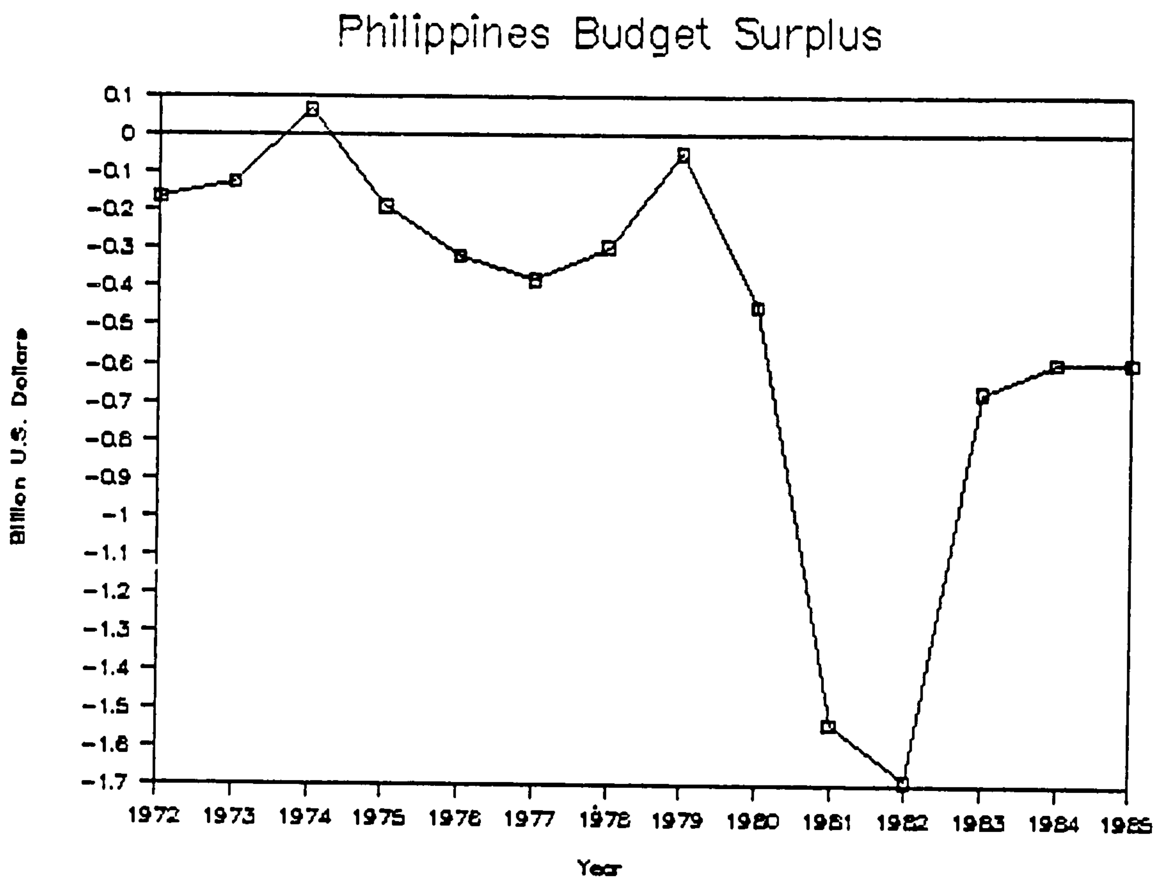
Year	RGDP per capita	Percent Change
1968	1048	2.9%
1969	1081	3.1%
1970	1094	1.2%
1971	1114	1.8%
1972	1147	3.0%
1973	1209	5.4%
1974	1271	5.1%
1975	1321	3.9%
1976	1380	4.5%
1977	1416	2.6%
1978	1468	3.7%
1979	1496	1.9%
1980	1551	3.7%
1981	1565	0.9%
1982	1570	0.3%
1983	1580	0.6%
1984	1472	-6.8%
1985	1361	-7.5%



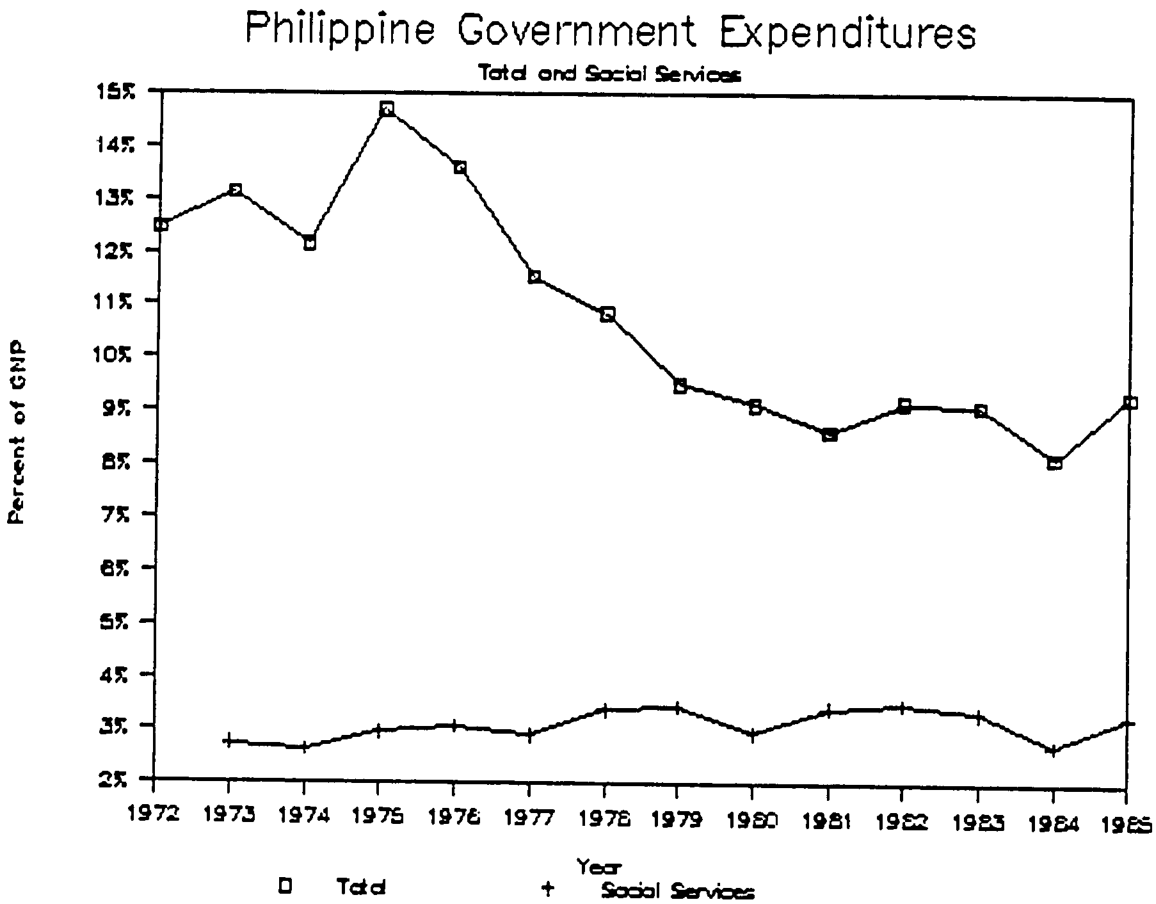
Year	Exports	Imports	Export/Im Balance	Percent Change
1970	1441	1489	-48	
1971	1536.6	1538.6	-2	-95.8%
1972	1667.6	1662.4	5.2	-360.0%
1973	2684.7	2211.4	473.3	9001.9%
1974	3803.6	4011.5	-207.9	-143.9%
1975	3488.2	4411.7	-923.5	344.2%
1976	3658.6	4760.5	-1101.9	19.3%
1977	4496	5249	-753	-31.7%
1978	5229	6326	-1097	45.7%
1979	6611	8106	-1495	36.3%
1980	8445	10348	-1903	27.3%
1981	9090	11151	-2061	8.3%
1982	8490	11690	-3200	55.3%
1983	8604	11352	-2748	-14.1%
1984	8403	9671	-1268	-53.9%
1985	8296	8314	-18	-98.6%
1986	9074	8078	996	-5633.3%



Year	Debt as % of GNP
1970	22.79%
1971	23.05%
1972	23.42%
1973	18.99%
1974	16.75%
1975	19.34%
1976	24.79%
1977	27.77%
1978	28.96%
1979	27.05%
1980	27.91%
1981	29.49%
1982	33.08%
1983	42.97%
1984	47.82%
1985	55.47%
1986	76.16%



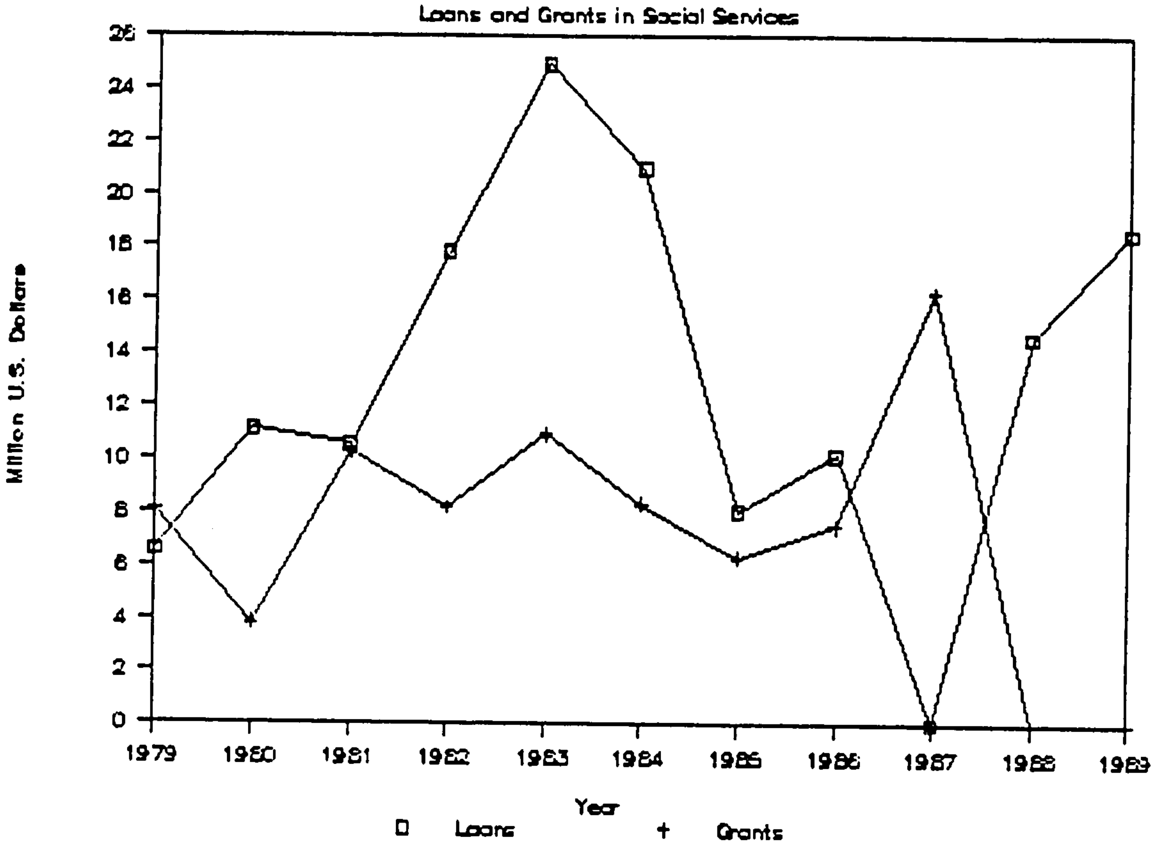
Year	Budget Deficit
1972	-165.1
1973	-124.7
1974	65.5
1975	-187.6
1976	-316.1
1977	-379.3
1978	-294.6
1979	-47.3
1980	-450.7
1981	-1538.5
1982	-1687.8
1983	-672.2
1984	-596.2
1985	-596.7



Year	Govt Exp. as % of GNP	Soc Services as % of GNP
1972	12.47%	
1973	13.14%	2.74%
1974	12.16%	2.63%
1975	14.70%	2.95%
1976	13.62%	3.06%
1977	11.56%	2.90%
1978	10.86%	3.39%
1979	9.53%	3.44%
1980	9.13%	2.96%
1981	8.63%	3.42%
1982	9.18%	3.50%
1983	9.12%	3.35%
1984	8.15%	2.73%
1985	9.30%	3.24%

Philippines A.I.D. Expenditures

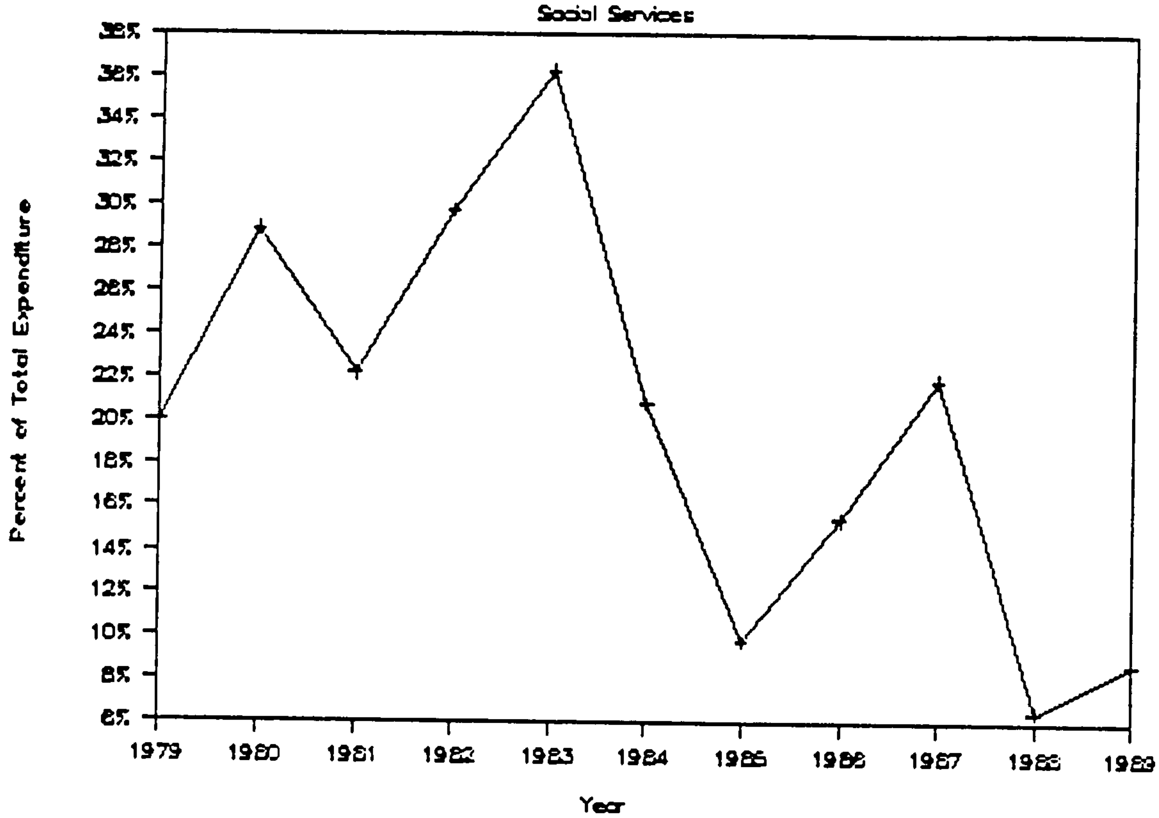
Loans and Grants in Social Services



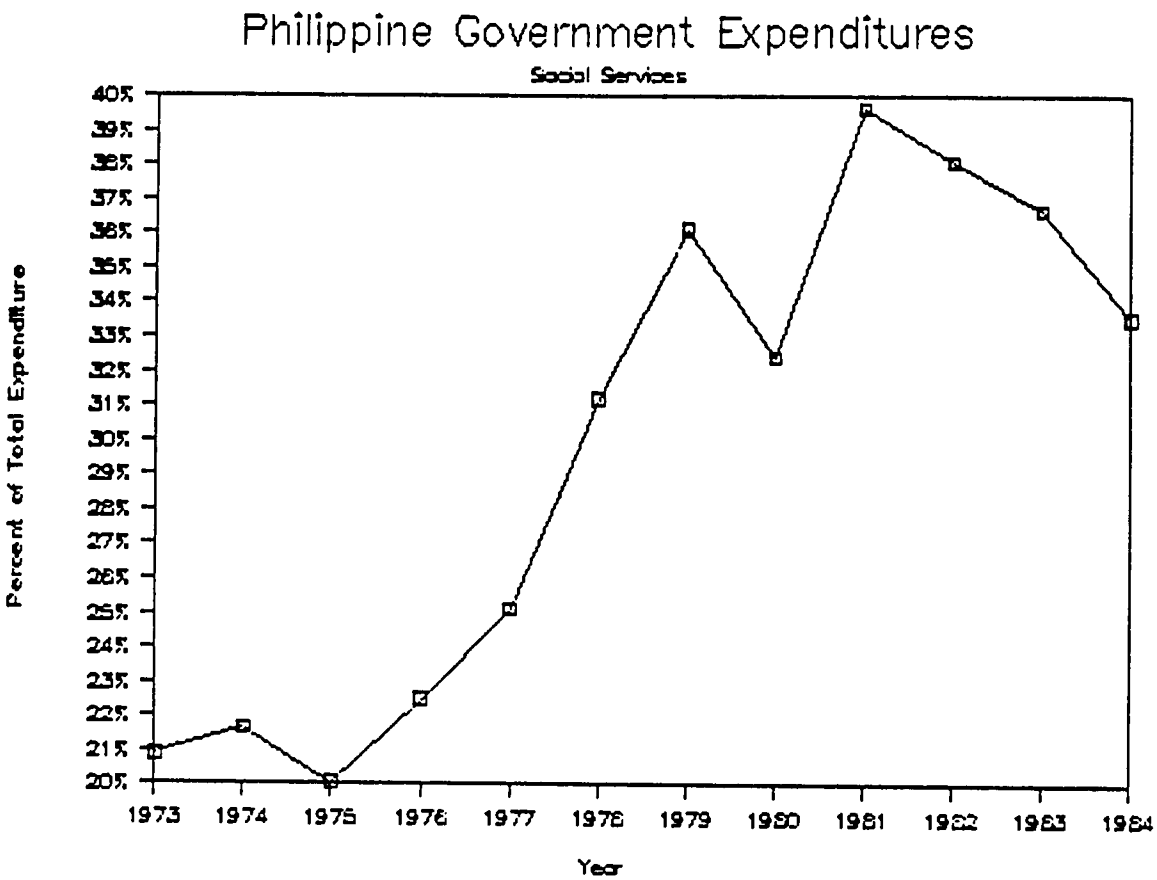
Year	Soc Serv Loans	Soc Serv Grants
1979	6.553	8.114
1980	11.117	3.817
1981	10.586	10.257
1982	17.784	8.183
1983	24.919	10.904
1984	20.954	8.294
1985	8.026	6.29
1986	10.17	7.483
1987	0.044	16.294
1988	14.615	0
1989	18.546	0

Philippines A.I.D. Expenditures

Social Services

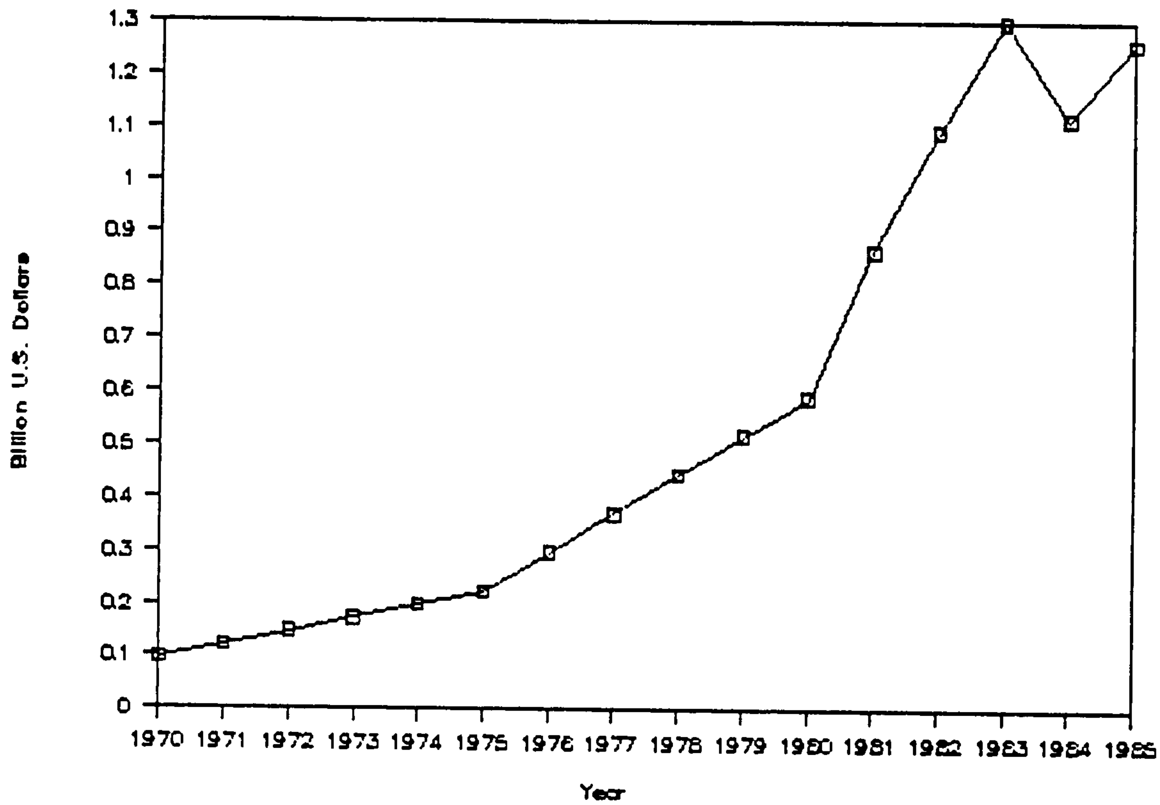


Year	Soc Serv as % Expend
1979	19.92%
1980	28.85%
1981	22.14%
1982	29.74%
1983	36.30%
1984	20.79%
1985	9.80%
1986	15.45%
1987	21.87%
1988	6.56%
1989	8.75%



Year	Soc Services as % of Total
1973	20.89%
1974	21.64%
1975	20.06%
1976	22.48%
1977	25.11%
1978	31.21%
1979	36.13%
1980	32.41%
1981	39.64%
1982	38.09%
1983	36.70%
1984	33.57%

Philippines Debt Service



Year	Debt Service
1970	96.6
1971	121.74
1972	146.88
1973	172.02
1974	197.16
1975	222.3
1976	295.54
1977	368.78
1978	442.02
1979	515.26
1980	588.5
1981	868
1982	1091.2
1983	1298.4
1984	1115.3
1985	1257

Official Assistance By Donor

Year	B.R.D.	Japan	U.S.S.R.	E. Eur.	Other
1976	8.2	78.2	0	5	17.3
1977	8.7	33.7	0	0	20
1978	12.09	73.29	0	30	21.25
1979	13.4	100.3	0	0	33.1
1980	13.9	109.6	0	0	53.3
1981	12.1	230.1	0	0	60.2
1982	20.9	160	0	10	62.4
1983	36	174	0	0	40.9