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PHILIPPINE ASSISTANCE STRATEGY

1993 TO 1998



MAY 1993
PHILIPPINES

PHILIPPINE ASSISTANCE STRATEGY

I. THE PHILIPPINES: FROM DEPENDENCY TO PARTNERSHIP

A. ONE HUNDRED YEARS OF SHARED HISTORY

The end of this strategic planning period, 1998, will mark the centennial anniversary of Admiral Dewey's victory over the Spanish Armada in Manila Bay, Spain's relinquishment of the Philippine archipelago to the U.S. under the Treaty of Paris, and U.S. "benevolent assimilation" of the Philippines as it was described by then President McKinley. The period addressed in this document is also of historical significance because it follows closely the single, most profound change in U.S. - Philippine relations since the U.S. granted Philippine independence in 1946, that is, the closing of the U.S. military bases and the withdrawal of all U.S. forces in November 1992. In this evolving relationship, what now are our shared interests? How best can we now work together towards a mutually beneficial partnership that will be cause for celebration after 100 years of close and unique association between our two countries?

It is the proposition of this paper that over the next five years we should be working towards a *partnership for democracy and development*: a partnership based on our shared commitment to human rights and democratic principles; our mutual economic interest in an open global trading system; and our common concern for global issues such as the environment, population and the AIDS epidemic.

B. A GOVERNMENT IN OUR IMAGE

For almost a century, beginning with the arrival of the first Thomasite teachers in 1901, we have been championing democratic ideals to the Filipinos (albeit with some notable self-serving lapses). As a result, the vast majority of Filipinos deeply believe in the ideals of individual freedom and democratic rule. With our help and moral urging, the Filipinos built an institutional base for democracy that was closely modelled on our own. Unfortunately, 21 years of Marcos' abuse and corruption left these same institutions bereft of democratic values and distorted in their purpose.

The survival of the Aquino administration for its full six-year term despite repeated challenges, and the peaceful democratic transition to the Ramos administration in 1992 are important milestones in the Philippine struggle to restore institutional democracy. Despite these successes, however, Philippine institutions, today, are not fully democratic. President Ramos publicly acknowledged this in a January 1991 speech entitled, "Philippines 2000: Our Development Strategy" citing, among other problems, "the distortions caused by political entrepreneurship, crony capitalism and oligarchic power" and "corruption...that undermines not just the economy but -- even more grievously -- the entire civic structure of people's faith in government." In acknowledging such problems, Filipinos have taken an important step towards addressing them and rebuilding the solid institutional base that lasting democracy requires.

C. AN ASIAN EXPERIMENT IN DEMOCRACY

There is a worrisome debate going on in Asia that revolves around the question: can democracy produce prosperity in an Asian setting? Lee Kwan Yew, the former Prime Minister of Singapore, has argued (particularly in a January 1993 speech in the Philippines) that "discipline," not "democracy," is the essential ingredient for economic prosperity and sustained growth. More recently, Malaysia's Prime Minister Mahathir Mohamad made his views on democracy very clear when he blamed the present chaos in Russia and Eastern Europe on application of the western theorem that "democracy plus market economy equals peace and prosperity." Such statements reflect the prevalent view in the region that development can only take place under a strong, centralized, authoritarian regime. It is a view based on the empirical observation of the newly industrialized countries (NICs) and the Tigers of Asia, all of which achieved their current status under authoritarian regimes. It is a view that is also reinforced by the fact that the Philippines, once the economic leader in the Region

and the only adherent to the ideal of democratic rule, is now the economic laggard.

Filipinos, on the other hand, had their fill of authoritarian rule under Marcos and reject the notion that the only cure for their economic ills is the "benign dictator" as economic savior. President Ramos spoke for the vast majority of Filipinos when he responded to Lee Kwan Yew's statements by agreeing that the Philippines needed a strong dose of discipline but quickly adding "never at the price of liberty." In his opening speech at the ADB 1993 Annual Meeting, the President offered further evidence of the Filipino's commitment to democracy when he said:

"True enough, our democracy has its frailties and its excesses...[but] authoritarianism we have known. For us it has failed miserably; and we are still paying the price."

In order to achieve Philippine economic and political goals, President Ramos must succeed on two fronts at once. A failure of the elected government to consolidate democracy and improve the effectiveness and transparency of public institutions will surely undermine the country's objective of becoming the next NIC. A failure of the economy, on the other hand, could easily lead to disillusionment, the collapse of what are still shaky democratic institutions and a willingness to experiment with dangerous alternatives.

D. NIC STATUS BY THE YEAR 2000

The Marcos years of crony capitalism left the Philippines, once the economic leader among ASEAN countries, with the most protected, inward-looking and uncompetitive economy in Asia. Poor policy management produced a long series of boom-bust cycles with per capita income growth of only 1.3% during the period 1965-1990, while per capita income in the neighboring ASEAN countries grew by 5.9% during this same period. Concurrently, the Philippine natural resource base was devastated by decades of uncontrolled exploitation for profit.

In a January, 1993 speech, President Ramos articulated Philippine economic goals for the remainder of this century:

- to be a Newly Industrialized Country (NIC) by the year 2000
- to achieve a growth rate of 6-8% per year
- to achieve per capita income of \$1,000/year
- to reduce the incidence of poverty from 50% to 30%

These are ambitious, but not impossible goals. The Aquino years, 1986-1992, saw the beginnings of economic reform aimed at engaging the anachronistic and isolated Philippine economy in the world market. During his first year in office President Ramos has continued this reform process. To date, the Philippines' overall performance on economic policy reform and restructuring has been mixed. The government gets high marks for liberalizing the foreign exchange regime, holding the public sector deficit and inflation in check, improving the foreign investment environment, reducing trade barriers and privatizing 375 (out of 525) state owned assets or corporations.

Much work and many hard decisions remain, however, if these reforms are to be deepened and extended sufficiently to increase Philippine competitiveness and public and private investment. The country's infrastructure, especially in the power sector, is still in a sad state of disrepair. Public sector revenues are inadequate to meet the dual objectives of increasing public investment while keeping inflation in check. The foreign investment regime requires further improvements and much more effort is needed to deregulate the Philippine economy. With each passing day the Philippines is playing catch-up ball with its ASEAN neighbors and the rest of the open, competitive economies of the world. It is no longer sufficient for the Philippines to earn a "B" for economic management. To succeed in ever more competitive world markets, the Philippines has to be an "A" student in the next few years.

E. POVERTY, POPULATION AND THE ENVIRONMENT

Since the ouster of Marcos, there has been little improvement in the condition of the rural Philippine population: some 49.1% of the rural population fell below the poverty line in 1991 as compared to 50.7% in 1985. In large measure this lack of progress can be attributed to the Philippines' population growth rate of 2.4%, the highest in Asia. This high population growth rate is also a significant factor in the alarming rate of environmental degradation taking place in the Philippines. Forest coverage is down from 10 million hectares in 1950 to 4.3 million hectares today. More than one third of the 200,000 hectares of mangroves surviving in 1970 have since been destroyed. The University of the Philippines now estimates that only 6 percent of the country's entire coastal resources remain in undeteriorated condition. Inland waters in the urban areas are being rapidly polluted by industry and untreated sewage. The present Philippines Secretary of Environment and Natural Resources labeled the Philippine scenario as one of the worst in the world. He noted that, at the present rate of environmental degradation, there will be little left of the Philippines' forest and coastal resources by the year 2000. The only way that the Philippines can achieve sustainable development in the long term is to place much higher priority on

and invest much greater resources in family planning and environmental management programs over the next several years.

F. A ROLE FOR A.I.D.

1. Supporting Democracy: Our historical ties to the Philippines as well as our global concern for advancing democratic principles and human rights argue strongly for supporting the Filipinos as they struggle to perfect a democratic system of government that was made "in our image." We should focus our attention on private and voluntary organizations (PVOs) and local governance, two important vehicles of voice and choice in the Philippines that offer the opportunity for rural peoples to exert greater control over their daily lives. Where opportunities and the political will exists, USAID should also seek to support the government's efforts to enhance the transparency, accountability and effectiveness of its key democratic institutions. We estimate that these activities would represent 12 percent of our obligations by the end of the strategy period.

If the Philippine experiment in democracy fails, we and the rest of the world's democracies will be the losers along with the Philippines. It will surely be used by the world's demagogues as evidence that American ideals about democracy and human rights are not universal principals (as we see them) but rather the imposition of Western values on other societies.

2. Improving Health and Well-Being: Working with the Government of the Philippines (GOP) and the many effective PVOs, USAID should help address the most serious problems constraining the health and well being of the poor. During the strategy period, we should strongly support the rapid expansion of family planning and seek to integrate these activities with maternal and child health services. We should finish our work on improving health care financing. We should help the Philippines in its efforts to control the spread of AIDS. Finally, USAID should provide limited resources, primarily through PVOs, to enhance employment and income opportunities for the poor through skills training and credit expansion programs. These activities would represent approximately 29 percent (excluding PL-480 Title II resources) of our program during the strategy period.

3. Promoting a More Open Market Economy: To allow the Philippines (and ourselves) to gain from greater integration into world markets, we will continue to encourage and provide technical assistance to help with policy reforms. Targets would include reduced trade and investment barriers, a more competitive exchange rate, sounder fiscal and monetary policies, enhanced domestic competition, and investment incentives encouraging competition and

exports. We will strive to get the Philippine government out of the economy, in particular, encouraging deregulation of power, transport and telecommunications. We will assist in efforts to create policy, regulatory, and administrative conditions conducive to trade and agribusiness growth, sectors of special interest to us. About 11 percent of our resources will go for these activities over the strategy period.

4. Increasing Productive Investment: Even without funding constraints, good reasons exist for reducing our assistance levels in the Philippines. The Philippines is not a destitute case. After a decade it is now able to return to world capital markets, can tap considerable borrowing from ready multilateral institutions, and does not need scarce U.S. grant resources for its infrastructure or balance of payments needs. In fact, the Philippines is not taking full advantage of the resources that are available. We calculate that the Philippines is losing as much as \$800 million per year from the multilaterals and the Japanese because of its lack of counterpart (read revenue), policy constraints and bureaucratic delays. While we do not have a good figure on the amount of private capital flows that are foregone for many of these same reasons, they would also have to be substantial. Thus, in a post-bases era, it makes little sense for the U.S.G. to continue making major transfers of scarce grant resources in the context of the substantial resources that should be available, given reasonable policy performance and economic management on the part of the GOP.

Because we have a strong technical, in-country presence and are able to provide grant funds, A.I.D. in the Philippines is considered by the GOP and other donors as the premier technical assistance agency. This has allowed USAID to play the unique role of enabler and facilitator vis a vis other donors, and domestic and foreign private capital sources. It is a role that is accepted by the GOP and other donors and one we have in fact played in the Philippines for many years. Some examples:

- Technical assistance to the Bureau of Internal Revenue both in support of the installation of a World Bank-financed computer system and quick improvements in tax collection efficiency. This leverages resources in two ways: first, the World Bank computer procurement was conditioned on the GOP obtaining adequate technical expertise; and, second, increased tax revenues mobilize domestic resources for development.
- Technical assistance in the design and establishment of a Private Sector Infrastructure Development Fund which will provide public sector seed money to help finance private infrastructure projects.
- Technical assistance to help the GOP improve its priority setting and budgeting for capital projects, including

particularly foreign assisted ones, which will both improve the provision of needed infrastructure and leverage other donor funds.

- Technical assistance aimed at integrating and improving the Philippines private capital markets and monetary arrangements which are essential for assembling needed investment funds as well as satisfying conditions set for significant loans from both the Asian Development Bank (ADB) and the World Bank.
- Technical assistance in the development of Build-Operate-Transfer schemes and feasibility work which will enable private investments in infrastructure.
- Technology and feasibility studies designed to facilitate and accelerate the transfer of U.S. technology and promote the involvement of the U.S. private sector in development.

We propose to continue this type of coordinated and highly targeted assistance with potential to leverage significant amounts of other donor and private resources. These activities would represent approximately 16 percent of our total resources over the strategy period.

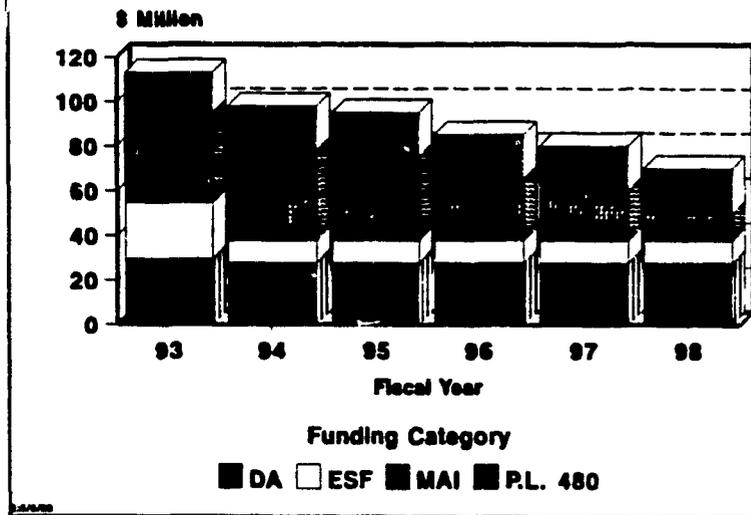
5. Enhanced Management of Renewable Natural Resources: We propose to continue playing the leadership role in natural resource management that USAID has had in the past. Until now we have been most heavily involved in developing programs, policies and systems related to forest resources. We have been effective at developing mechanisms and establishing models that other donors have subsequently financed. The ADB, for example, has provided \$240 million for a reforestation program patterned on an earlier USAID project. We recently expanded our program to cover industrial environmental management. During the strategy period we plan to further expand our environmental programs into the coastal regions as our work in the green areas is taken over by the other donors. USAID environmental activities would represent some 32 percent of our programming during the strategy period.

G. ASSISTANCE LEVELS

By the end of the planning period we are projecting an annual U.S. economic assistance level of \$70 million for the Philippines (\$50 million in appropriated funds plus \$20 million in PL-480.) This total represents a decline of almost 85% from the peak level of \$400 million provided in FY 1990. During the late 1980's the U.S. was clearly one of the larger donors in the Philippines, in part reflecting economic assistance that was tied to the base agreements. With these levels USAID essentially provided three types of assistance: a "World Bank-like" infrastructure financing

operation; an "IMF-like" performance-based, balance-of-payments support operation; and, a more traditional A.I.D. project-based portfolio. Our "World Bank" operations had a high price tag and were very staff intensive. the IMF-style cash transfers were somewhat less staff intensive but involved large amounts of balance of payments assistance. We are now proposing that we get out of the World Bank and IMF business and concentrate, instead, on playing the role of facilitator and intellectual leader, focussing on policy formulation and helping to increase the efficiency of the Philippines in mobilizing resources from existing domestic and foreign sources and addressing basic development needs.

U.S. Economic Assistance - Philippines (Projections)



H. A U.S.-PHILIPPINE PARTNERSHIP BY 1998

While our immediate interests here are obviously diminished by the closing of the bases, there is significant potential for close cooperation and mutual support on a variety of interrelated security and economic interests and global issues. The Philippines is a country that, by almost any measure, should be relevant: its location, geography and physical and human resource base offer immense potential to play a significant role in the future security and economic development of the region. And now, more than at any other time in the last 400 years, the Philippines' economic and political future, and its relevance in the global community of nations, is up to Filipinos.

By the same token, it is largely the Filipinos who will determine the country's future relevance and importance to the U.S. The watchword phrases of the post-bases U.S.-Philippine relationship have become "places not bases" and "trade not aid." A security partnership based on U.S. access to Philippine facilities (under the Mutual Defense Agreement) and an economic partnership based on free and fair two-way trade are worthy goals that would clearly be in the interests of both countries. Presently, however, the

country's still shaky political institutions and low level of development make it a weak partner at best. The goal of establishing a true and effective partnership is, thus, not likely to be achieved unless the Philippines is successful in consolidating its political institutions, restructuring its anachronistic and inward-looking economy and resolving other serious constraints to sustainable growth (e.g., environmental degradation).

It is the possibility of a mutually beneficial economic and security partnership that argues strongly for the U.S. to remain cooperatively engaged with the Philippine democratic leadership on development issues over the next several years, albeit at a more moderate levels. Accordingly, the strategy, programs and levels proposed herein seek to strike a rational balance between: (1) our own long term global, regional and bilateral interests in such a partnership; (2) an assessment of Philippine development potential and priority constraints; (3) A.I.D.'s global concerns and particular comparative advantage vis a vis other donors; and, (4) anticipated program funding realities. In providing our assistance, it will be crucial to continue to coordinate closely with the other donors, preferably in the context of an extended Multilateral Assistance Initiative (MAI) which has proved to be a uniquely effective mechanism for orchestrating donor assistance in the Philippines. In so doing, the MAI has served the interests of both the donors and the Philippine government. In the case of the U.S., it has allowed us to use our comparative advantage (a strong technical, in-country presence and grant funding) to facilitate and leverage resource flows that far exceed our own direct contributions to Philippines development.

Beyond the strategy period we envision a significantly reduced bilateral assistance program focussed on technology transfer and global issues such as the environment, population and AIDS. With greater political stability and the economy on a path of sustained development, our bilateral relationship would be increasingly concentrated on mutually beneficial trade and cooperation on regional security matters.

II. RESPONSIVE DEMOCRACY

In 1986, in a peaceful, populist revolt, the Filipino people rid themselves of a dictator and stirred the world with their demand for a democratic form of government. With the overthrow of Marcos

and a new democratic government in place, Filipinos recovered important democratic rights they had lost during an extended period under martial law. Filipinos, once afraid to criticize the government, could now exercise, without any fear of reprisal, the right of free speech and assembly. And in 1992 they exercised their right of vote their leaders in and out of office in free and fair elections.

While democracy has been reinvigorated, the institutions that are needed to sustain it still suffer from the damage of 21 years of corruption and abuse. In the six years of the Aquino administration, there was limited progress in dealing with this problem. Power and wealth remain in the hands of a few; 5% of the population control 50% of the wealth. Wealth, kinship and family loyalties continue to drive government transactions and to sway public policy. Government employees too often use their positions to take care of friends and family, not public service.

The new Constitution in 1987 made the judiciary independent from the other branches of government. There is little to indicate, however, that the judiciary is committed to society's notion of justice or rule of law. The courts are fraught with allegations of corruption at all levels, and with charges that justice is available only for those of means and influence.

A. MORE RESPONSIVE SELECTED DEMOCRATIC INSTITUTIONS, WITH GREATER CITIZEN PARTICIPATION

The Philippine Congress took a major step toward opening the government by enacting the Local Government Code in 1991. Until the Code, decisions about public services anywhere in the country were made in Manila. Local governments could not raise revenues themselves, but had to rely on the national government for funding. Infrastructure, better health services and schools were in Manila, at the expense of the other cities and provinces where most Filipinos live.

Local communities are in a better position to identify their development needs and priorities, and they are better able to hold their local governments accountable. The Code immediately transferred a wide range of authorities from the national government to local authority. Over time, the central government will return an increasingly larger share of national revenues to local governments. Local governments now must deliver or arrange for public services in environmental and disaster management, family planning, health care and infrastructure construction and maintenance.

Seventy-six provinces, 60 cities and 1,545 municipalities have new authorities under the new Local Government Code. The first steps were taken early in 1992 by an increase in local governments' share of revenues and taxes by 200% over 1991. More than 60,000 civil servants from national agencies have already been transferred to local governments.

The challenges for local governments are formidable. Most of them are taking on responsibilities in which they have little experience. The revenue allotments under the new law increased from 5.7 billion Pesos in 1989 to 37 billion Pesos in 1993 and will go to an estimated 60 billion Pesos in 1996. Local governments will need this and more to carry out their new responsibilities. Yet, while there is no guarantee that decentralization will not simply substitute traditional feudalistic power structures at the local level, decentralization does

greatly increase the opportunity for citizens to influence decision makers, exert greater control over their lives, and obtain the public services they need.

The Philippine Chamber of Commerce and Industry met in July 1992 to lay out their most important development issues for the newly-elected President Ramos. The Chamber placed reform in the justice system at the top of the agenda, and pleaded for the judiciary to be committed to "a new way of life anchored in the highest standards of morality, and to pursue an efficient, compassionate administration of justice. . ." Since then, public concern about the state of the judicial system has intensified.

Problems in the judicial system undermine many reforms the new administration is trying to make. Laws are in place to protect the environment, prohibit corruption, ensure fairness in the delivery of services and open the economy, but are seldom enforced. The few cases that end up in court can take years for a decision, but even decisions by the Supreme Court are not final. The amount of government funding for the judicial system is usually an indication of its importance -- but Philippine courts, for example, receive less of the national budget than the University of the Philippines.

President Ramos responded to calls to clean up the police force, which recently led to the arrest of the head of the police force along with some 60 other high ranking officials. The Vice President followed with a call for the mass resignation of judges in the country and entirely new appointments. However, the constitutional independence of the judiciary does not allow the President such power. There should be no mistake, therefore, that widespread reform of the judicial system will require enormous political will, particularly in the leadership of the judiciary itself. In an encouraging sign, the Supreme Court recently

approved the filing of administrative charges against ten judges in the lower courts for corruption and related offenses. It remains to be seen if this is a small first step toward widespread reform.

Increased local government resources, mechanisms, and models for responsive performance: USAID has been the lead donor on decentralization in the last decade. After years of supporting changes embodied in the Code, our strategy now is to help local governments make a smooth transition to their new role of increased authority under the Local Government Code. With more limited resources available, we plan to work directly with only a few local governments. With these, however, we will develop model systems that can be replicated elsewhere for growth and development planning, environmental monitoring, private sector financing, and tax administration. Funding for local capital projects will be phased out. Instead, our focus will be on helping local governments address their own financing requirements through tax revenues or private investment.

To help ensure that local governments are responsive to public needs, we will continue to work with selected non-governmental organizations (NGOs) and private and voluntary organizations (PVOs) to develop their capacity to represent community interests and needs for services. We also will help certain NGO/PVO's increase their capacity to act as a resource for information and services for local governments.

In the short term, the Philippine government has transition problems associated with rapid implementation of the Local Government Code, such as organizational restructuring between central agencies and local governments. We will continue to help the government address these and related problems. A change from past USAID efforts will be the emphasis on technical assistance rather than cash transfers.

To bring creativity and innovation to local government problems, we plan to arrange linkages between local governments and comparable U.S. organizations, and with local universities, private and public institutions. Our activities in family planning, health services, and environmental management will increasingly support local government efforts in these areas.

Increased oversight of and pressure for accountability in government (including the judiciary): There are encouraging signs that public interest is beginning to turn to the issues of corruption and lack of good governance, including in the judiciary. Recent Philippine public opinion polls show that public confidence in government is lowest in the courts. Yet the need for equal and fair justice is of primordial importance to democracy and even economic competitiveness (the courts are often used to maintain the policy status quo and to eliminate competitors). We plan to help organizations mobilize public concern into effective public demand

for increased accountability in government. This will include raising awareness of civic and legal rights generally, and bringing greater public attention to governance issues and what can be done. We will also seek to support professionalism in the media coverage of issues of governance and will work with the Congress and government to garner support for needed reforms. We will continue to collaborate with The Asia Foundation and other donor agencies such as the Ford Foundation, throughout the strategy period.

If a consensus builds on fundamental reform in the administration of justice, we would be prepared to give further support. Court administration, procedures, case tracking, judicial training, specialized courts -- all could be part of an overall program to modernize the judicial system, but are likely to be ineffective unless the fundamental problems of corruption and lack of resources are dealt with. Meanwhile, we will continue modest efforts to help litigants reduce the burden on the courts, by developing mediation and other dispute resolution mechanisms.

Increased PVO/NGO activities for citizen participation: Increased and active citizen participation is crucial to making democratic institutions responsive. Still, most Filipinos do not challenge government abuses, demand better services, or insist on their civic and legal rights. Few actively pursue development of their communities, or take charge of their community needs. This sense of powerlessness is in part one of the legacies of martial law; in part, it is due to lack of economic opportunity and the high rates of abject poverty. For the foreseeable future, the Philippines will need strong PVO's and NGO's to: (1) compensate for the lack of government services; and, (2) to serve as a vehicle for representing the needs and rights of the poorer segments of society.

In past years USAID has developed extensive contacts with Philippine PVO/NGOs and presently supports over 100 such organizations. We will capitalize on those contacts during the strategy period by focussing on building a few PVO/NGO networks that can support many other organizations. These networks would expand the support available to PVO/NGOs in specific sectors, such as credit or legal rights. We will continue to help selected PVOs on particular issues such as PVO/local government relationships. We also will help strengthen the ability of selected PVOs to become self-sustaining through service delivery

B. IMPROVED HEALTH AND ECONOMIC WELL-BEING OF TARGETED POPULATIONS

Philippine politics of the past twenty-five years have also had a deleterious effect on progress in improving the health and well-

being of most Filipinos. Early in the Marcos years the Philippine population program, the national health system, and community development outreach were model programs for Asia. They were nearly dismantled as a result of a lack of political will and underfinancing (and religious reasons in the case of family planning) by the mid-80s.

During the Marcos years, the rate of reduction in infant and maternal mortality slowed. Contraceptive prevalence rates stagnated. Access of micro-entrepreneurs and minority groups to productive resources declined. As a result of these "lost" years, the Philippines now lags far behind its neighbors in most indicators used to measure mother and child health. It provides modern contraceptives to only 22 percent of married women of reproductive age, compared to coverage in Thailand, Indonesia, and Bangladesh of 65, 46, and 32 percent, respectively. The resultant high population growth rate threatens a doubling of the already dense Philippine population from 67 million in 1990 to more than 120 million by 2020. Over 49 percent of the Filipino people live below the poverty line and rural development programs lag significantly behind those of other countries in the region.

Under the Aquino administration, the public health system was revitalized. In 1988, the Department of Health embarked on a campaign to emphasize child survival interventions and, over the succeeding five years, reapportioned the growing government health budget in favor of primary health care services, with assistance from USAID.

While health benefitted under the Aquino administration, population and community development did not. Despite documented and growing unmet need and public opinion surveys which called for access to family planning, the Aquino administration initially allowed the population program to deteriorate further. In 1988, however, when President Aquino was shown the rising maternal mortality rates, she allowed the Secretary of Health to take on the family planning mandate and institute family planning services as a health measure. The Department, supported by USAID, made slow but increasing progress in incorporating family planning services into the DOH for the first time.

With the advent of the Ramos administration, new opportunities have arisen. President Ramos has strongly articulated his positive stance toward "population management" as a vital element in seeking NIC status, improving health and well-being, and preserving the environment. Continued success will depend on strong political support, continued reapportionment of public sector funds and a watchful stance against deterioration of service delivery under the new Local Government Code.

Although current rates of HIV infection in the Philippines are low, the experiences of other countries in the region and the prevalence

of high-risk behaviors in the Philippines give cause for alarm. The Asian pandemic has thus far concentrated on the poor and marginalized sectors of society. The scant data available in the Philippines indicates these sectors are also most at risk here.

USAID will continue to be the lead donor in family planning, health financing, AIDS, and microenterprise development. Other donors include the World bank, the Asian Development Bank, UNFPA, JICA, AIDAB, WHO and GTZ.

Increased utilization of family planning services: USAID's new strategy calls for rapidly increasing service delivery to begin meeting the existing demand, with increased support to the private sector and NGOs. Social marketing efforts will be expanded and the

	% ave. growth rate of pop. (1990-95)	Total fertility rate	% contraceptive prevalence rate
Philippines	2.4	4.1	36
Thailand	1.4	2.4	66
Sri Lanka	1.5	2.4	62
Indonesia	1.7	3.0	48

Sources: Growth rates of population are from UNFPA; TFR and CPR are from the Center for International Health Information. TFR data are as follows: P-1990; T-1991; SL-1991; I-1990. CPR data are as follows: P-1986; T-1987; SL-1987; I-1991.

development and improved sustainability of NGO programs will be further emphasized. USAID will also assist the DOH in improving its capacity to provide technical, logistical, and commodity support to local governments delivering family planning services. This will include development of information and communications systems, provision of contraceptives, training, operations research and policy planning.

Increased utilization of maternal and child health services: Despite the exceptional progress in child survival and the current political interest in maternal and child health (MCH) and population programs, we are concerned about the impact of devolution. In 1992, more than 40,000 health professionals and thousands of hospitals, clinics and health posts were devolved to local government control and are now heavily dependent on local funding. The less visible but extremely important delivery of MCH services, including family planning, may suffer. USAID, therefore,

plans to help provincial governments make administrative and structural changes that lead to enhanced integrated service delivery of key child survival and maternal health interventions.

Since 1989, USAID has encouraged a greater mix of cash and commodity resources in MCH and school feeding programs, and

PROFILE OF INFANT AND MATERNAL MORTALITY

**Infant Mortality Rate
(per 1,000 live births)**

	NSO	TFIM	De Guzman
1980	63.2	59.0	56.9
1984/1985	56.6	63.0	62.8
1990	50.3	60.0	-

**Leading Causes of Infant Deaths: 1989
(per 1,000 live births)**

Pneumonias (7.1), respiratory conditions of fetvs and newborn (4.0), diarrheas (1.4), congenital anomalies (1.3), meningitis (1.3), avitaminoses and other nutritional deficiencies (0.9), measles (0.8), birth injury and difficult labor (0.8), acute bronchitis and bronchiolitis (0.3), septicimia (0.8).

Maternal Mortality: 1989

Number	1,579
MMR	1.00

**Leading Causes of Maternal Deaths: 1989
(per 1,000 live births)**

Pregnancy with abortive outcome (0.10); hemorrhages related to pregnancy (0.07); hypertension complicating pregnancy, childbirth and puerperium (0.30); postpartum hemorrhages (0.30); normal delivery and other complications related to pregnancy occurring in the course of labor, delivery, and puerperium (0.30).

Source: Health Sector Review: Philippines. January 1993. USAID-DON-UPecon Health Finance Development Project.

improved targeting for moderate and severely malnourished children. In the period covered by this strategy, we intend to phase out our involvement in traditional feeding programs in favor of expanding integrated nutrition, health and credit programs targeted to poor children and mothers. USAID will seek a transfer of responsibility for feeding to GOP and NGO counterparts. Where feeding is required as a component of a nutrition effort, it will seek measurable improvement in well-being for targeted beneficiaries over a predetermined stretch of time.

Improved and developed health care financing mechanisms: A 1992 World Bank report on health in Asia noted: "Among middle-income countries, the Philippines, the laggard in improving infant mortality in that group, has [total] health expenditure closer to that of the low-income group.... Government spending at \$3.76 per capita, is little over a third of Thailand's and less than in India, Indonesia, and Sri Lanka." For the Philippines to continue to make progress in improving the national health status, more of scant public resources must be allocated to public health measures. In order for this to be politically feasible for local governments, other equitable financing measures must be in place to fund largely private sector delivery of hospital and curative care.

As a vital step in this direction, health financing needs to be restructured from a fee for service system to one favoring

POTENTIAL U.S. - PHILIPPINE HCF PARTNERSHIPS

The field of health care financing is replete with opportunities for productive U.S. - Philippine partnership. Despite misgivings about the U.S. health care system, it provides a few models for improving Philippine health care. Among these are:

- o **Managed Care - EMOs, managed indemnity plans, preferred provider organizations, gatekeeper and utilization review mechanisms.**
- o **Prospective Payment Systems - both for hospitals and physicians.**
- o **Health Information Systems - for providers, payers, and systemwide applications.**
- o **Public Funding and Private Provision of Care - medical indigency and other targetted entitlement programs.**
- o **Health Care Policy Process - at the county, state, and federal levels.**
- o **Medical Technology Assessment - evaluation of new technologies in terms of cost, appropriateness, impact, and other criteria.**
- o **Health Service Research and Evaluation - cost-effectiveness and cost-benefit evaluation of health programs and interventions.**
- o **Quality Assurance - methods and protocols for health service delivery.**

insurance coverage and cost containment. We will be supporting the DOH in this task by developing an information-based, transparent process for health finance policy development and implementation. In addition, technical assistance and funding will be provided to pilot managed care schemes that improve equity of access and hospital efficiency in both the public and private sectors.

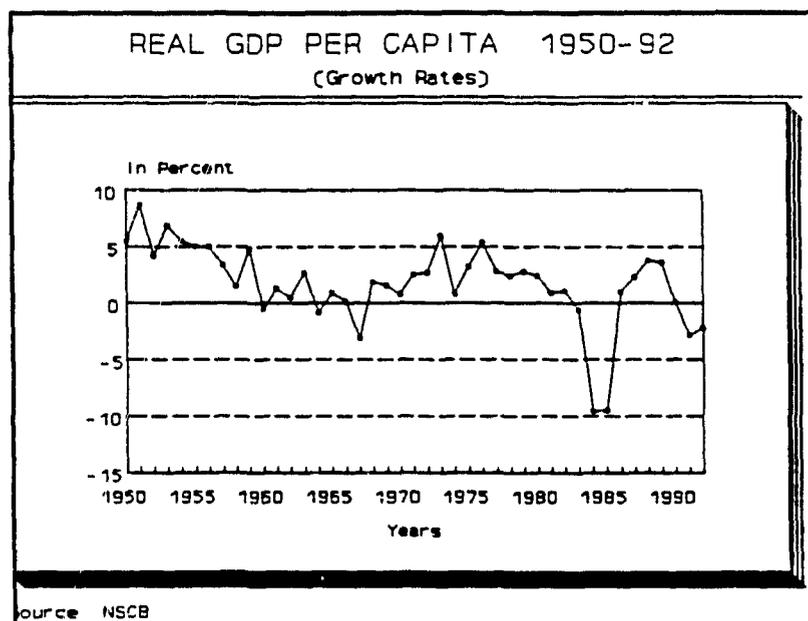
Increased use of AIDS prevention practices: Lack of information regarding the prevalence of HIV infection in the Philippines has stymied development of political will and limited targeted programs to combat transmission of this deadly virus. Within the context of the National Medium Term Plan for AIDS Prevention approved by the WHO, we will assist the DOH in developing a national HIV sentinel surveillance system to provide complete and accurate data over time on progression of the epidemic. USAID will also both continue and expand our support of innovative NGO and other private sector AIDS disease prevention education activities targeted at groups which have a prevalence for high-risk behavior.

Improved income opportunities for the disadvantaged through community groups: Widespread poverty in the Philippines is largely caused by the lack of productive employment opportunities for the rapidly growing labor force. This is particularly true in the case of disadvantaged groups. Our future efforts will be directed at helping communities embark on enterprise development activities through increased access to domestic, commercially provided financial resources, livelihood skills training and market expansion programs. USAID will focus on small entrepreneurs from rural areas or the peri-urban fringes and on ethnic and religious minority groups. Expanded income opportunities should lead to more active democratic participation at local, regional and national levels. We will continue to rely on PVOs, which traditionally have been an effective delivery mechanism for these types of programs.

III. ECONOMIC PARTNERSHIP

Forty years ago the level of development in the Philippines was second only to Japan in the East Asia region. Now, however, the Philippine economy lags far behind that those of its neighbors (Singapore, Taiwan, South Korea, Malaysia and Thailand). Economic growth has stagnated, per capita annual income is around \$800, and income distribution is highly skewed. More than half the country's income goes to the top 20 percent of households while those in the bottom 20 percent receive only five percent of the income. Of the country's 67 million people, 46 percent are considered to be poor (below the poverty line.) Per capita income is currently falling after growing at an average of only 1.3 percent a year. In economic terms the Philippines is beginning to resemble more closely the countries of South Asia than its ASEAN partners.

The Philippines was the only ASEAN country to register a negative average annual growth rate in gross domestic investment from 1980-1990. This slow growth in investment has resulted in an enormous unmet demand for basic infrastructure, particularly telecommunications, power and transport, all key ingredients for local business initiative and productivity. Similarly, the Philippines likewise has had the lowest level of foreign investments, far behind the next closest ASEAN country.



The lack of investments has, in turn, limited the number of new jobs. Out of 25 million workers currently in the rapidly growing labor force, nine percent are unemployed while another 22 percent are underemployed. At a time when Singapore and Taiwan were opening their economies to international markets and inviting foreign investment some twenty years ago, the Philippines was turning inward. President Marcos tightened control over industry and business and focussed on the domestic market. Those elements of the oligarchy who supported these protectionist policies profited immensely from government intervention, and captured most of the economic growth. Twenty years of these policies has done serious damage to business initiative, productivity and competitiveness and the jobs that might otherwise have been created under a more outward looking economy.

Former President Aquino and her economic team substantially furthered the long neglected effort to transform the economy into an open, market-based regime. They introduced trade and foreign investment liberalization, lifted most of the foreign exchange restrictions, undertook major tax reform and launched deregulation efforts in transport and industry. President Ramos showed his support for an open market economy when he announced his intention to "fast-track" development programs and bring newly industrialized country (NIC) status to the Philippines early in the next century.

However, turning decades of government intervention into the right kind of support needed for the business community to create employment, increase productivity and expand exports, is proving

difficult. Reaching and sustaining levels of growth necessary to realize the NIC goal will require overcoming powerful vested interests within the country and pursuing a more competitive, outward looking, export driven economy.

The Ramos administration has a only a short time to demcnstrate that the economy can be transformed under the current political system. Failure to provide effective economic leadership will ensure continued economic stagnation, boom-bust cycles, and protracted dependence on foreign aid. However, with U.S. and other donor assistance, the Philippines has an excellent chance, perhaps the best in almost half a century, of achieving broad-based and sustainable economic growth.

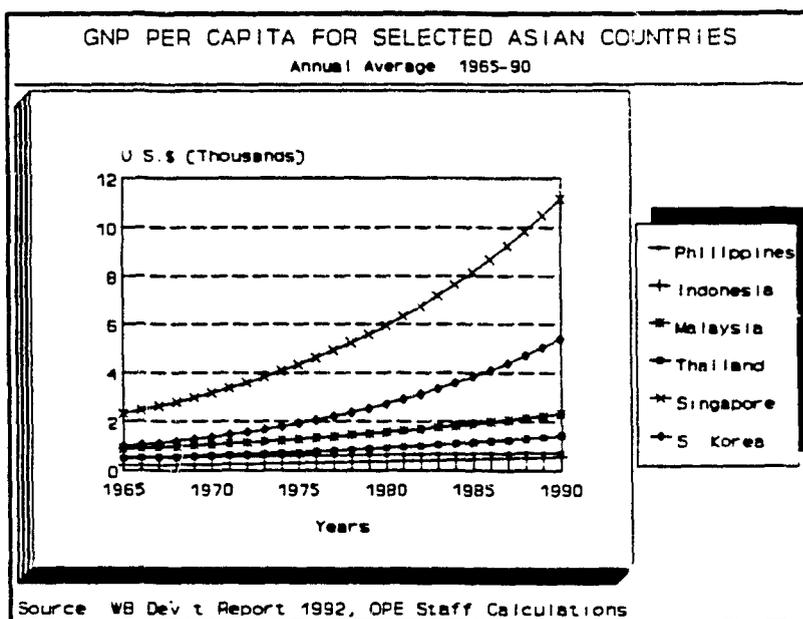
A. A MORE OPEN MARKET ECONOMY

Filipinos are beginning to realize that they have not gone far enough in changing the old economic order. Extensive government involvement in many business support sectors has obstructed private investment and resulted in far-reaching deficiencies. Inappropriate policies and bureaucratic inertia continue to protect large, inefficient firms that are supposed to be providing services for business growth and expansion. The Government's National Power Corporation (NPC) produces and transmits almost all electricity in the country. Currently, Manila is suffering up to ten hours of power outages a day, at great cost to local businesses. The Philippine Long Distance Telephone Company (PLDT) controls 93 percent of the market and almost all international connections. Only one person in 100 has a telephone, and those who do get meager service. Local businesses pay one of the highest rates in the region for international communications. They also pay high rates for inter-island shipping services that are inadequate and unsafe. Local companies engaged in trade and agribusiness still run into bureaucratic barriers when they try to expand or enter new markets. International trade and agribusiness are restrained by a multiplicity of sectoral policies and inadequacies in legal remedies and protection.

President Ramos is resolutely following through on moves to open the economy and mobilize resources. An open market policy, both international and domestic, will encourage efficiency and growth in the Philippine economy, expand trade, facilitate the entry and exit of foreign investments, provide the framework for a rising standard of living distributed with reasonable equity, and contribute to a society characterized by social mobility, political freedom, and an interest in the sustainable use of resources.

More open and outward looking macro-policy framework: Building on our own experience in this area and working with the IMF and the World Bank, USAID will be supporting further reforms leading to a

more open and outward looking economy. Our help will come in the form of policy analysis and dialogue, technical assistance, training, limited commodities and advocacy promotion. In particular we will be looking to encourage a more competitive foreign exchange rate, less trade protectionism, appropriate fiscal and monetary policies for stability, more openness to foreign investment, more neutral investment incentives, and a more competitive financial sector open to foreign banks.



Deregulation and liberalization of energy, transport and telecommunications sectors: The Philippines is committed to opening the power, telecommunications, and transportation sectors to private investors and regulating them less in order to encourage investments in services critically needed by private enterprise. Through technical support USAID will encourage further deregulation on pricing (e.g. petroleum products), private sector entry (e.g. inter-island shipping routes), and telecommunication franchises and interconnections. In addition we will work with involved institutions, such as the Maritime Industry Authority, Department of Transportation and Communications, and Department of Energy, on liberalizing operational rules and procedures on pricing and entry.

Supportive sectoral policies for trade and agribusiness: Through technical support to private and government bodies and advocacy efforts, USAID will encourage the elimination of regulatory barriers to international trade (e.g., advance payment of taxes and duties on imports by exporters and prior deposit requirement for opening letters of credit) and the cumbersome procedures for doing business in the Philippines. We will help improve trade promotion and trade financing opportunities. In addition, we will work to remove legal impediments to subcontracting, improve legal remedies for contract violations and increase recognition of intellectual property rights so that the legal, regulatory and judicial environment will be supportive.

We will encourage the reduction of government involvement in agricultural marketing, pricing and agribusiness. In particular,

USAID seeks privatization of grain trading, removal of restrictions on the import of genetic materials, tariff reductions on selected agricultural commodities, increased competition in cargo handling, and greater government support for agribusiness.

B. INCREASED PRODUCTIVE INVESTMENT

Increased investment -- be it public, private, domestic or foreign -- is a key factor for ultimate Philippine economic success. The inadequacy of facilities and services in the country have reached the point where substantial investment and the introduction of new technologies are now essential to facilitate economic expansion and improve service delivery. For example, to get back on the track followed by its ASEAN neighbors, the Philippines must mobilize some \$4 billion a year just for its telecommunications and energy requirements alone. Mass transportation, environmental technology and other infrastructure requirements are also sizable.

To mobilize the resources necessary to address this investment gap the GOP must look more to the private sector to provide goods, services and infrastructure. It must also get its own fiscal house in order and facilitate the expansion of financial and capital markets. To better distribute opportunities, it will want to encourage investment outside the Manila area. The private sector is constrained in its ability to respond quickly and adequately to investment opportunities or government efforts to privatize due to limited or inappropriate technologies available locally, inadequate incentives for private participation, and a basic lack of capital.

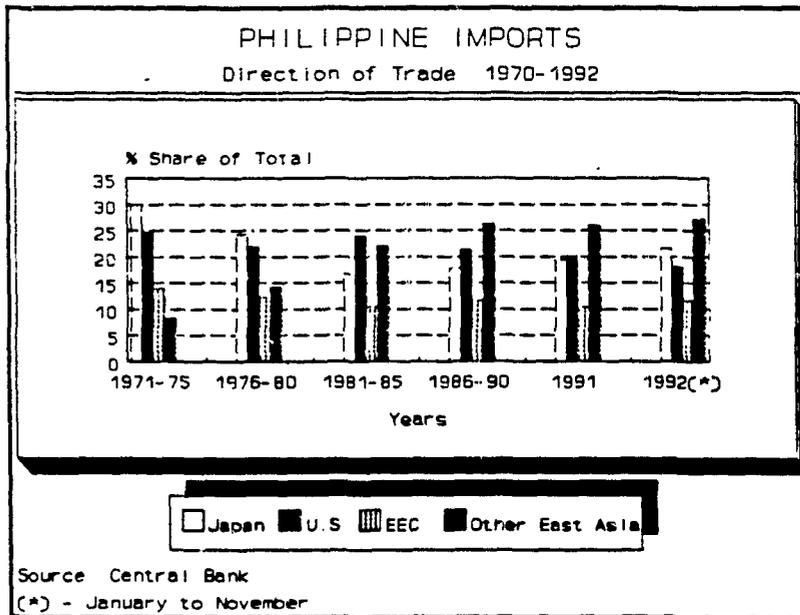
While the GOP has disposed of some 368 out of 525 acquired assets and state corporations, it still holds too many. Accordingly, the government has just renewed its privatization program and reconfirmed its commitment to divest itself of "big ticket" items such as the National Power Corporation and the National Petroleum Company (PETRON). The Government has also articulated a strong policy supportive of a private sector role providing infrastructure and essential services such as power and telecommunications through Build-Operate-Transfer (BOT) and similar approaches. These programs lessen the burden on the GOP for capital expenditures and subsidies, and mobilize resources of the private sector towards productive investments.

The GOP has been consistently in deficit for years due to its inability to efficiently collect taxes and effectively manage its debt and expenditures. The GOP tax effort at 15 percent of GNP is too little and far below those of its ASEAN neighbors. Capital expenditures and maintenance have been limited by tight budgets and inappropriate priorities. Counterpart funding necessary to utilize hundreds of millions of dollars of assistance available from the World Bank, ADB and Japanese Government is lacking. As a result,

significant decline in the quality of infrastructure and basic services has burdened the public and seriously hurt private sector growth.

The inability of Philippine capital and financial markets to provide resources in the form of long-term capital or even short-term sources of working capital, while available, are related to high transaction and interest costs, the lack of competition in the banking sector and the undeveloped state of alternative capital markets. These markets need to be developed and strengthened to support investments and long-term growth.

Business activities and investments in the country are highly concentrated in the National Capital Region and a few capital and regional cities. Productive investments in the countryside need to



be encouraged in order to achieve a broader base of investments and a more equitable dispersal of income opportunities in the country.

Given this scenario, a future U.S.-Philippine economic partnership will require the mobilization of indigenous as well as foreign resources to increase productive investments. Mobilizing the needed resources, including technology, offers a vast range of opportunities for U.S.-Philippine

linkages which will mutually benefit both countries. U.S. know-how, resources and technologies in combination with Filipino efforts and resources have substantial prospects for encouraging economic prosperity for the Philippines and creating markets for U.S. exports and investments.

In a major departure from past approaches, USAID will not supply resources for actual investments, but will work to build linkages and mechanisms that can mobilize resources leading to increased productive investments. We will provide technical assistance to identify opportunities, improve operational procedures, strengthen financing mechanisms, and introduce new technologies, placing emphasis on leveraging private and other donor funds.

Increased private sector provision of goods, services and infrastructure currently or traditionally provided by the public sector: The GOP has recognized that public funds are inadequate for required investments. It is also cognizant of the fact that private sector ownership, operation and/or provision of certain goods, services and infrastructure, if implemented correctly, mean better facilities and services for the public, lower capital costs for the government, a fair rate of return for the private investor, and more productive private investments as enterprises gravitate to adequately served areas.

Given the strong commitment of the GOP to the privatization program and to encouraging private investment in infrastructure and essential services, and the significant impact these programs have on the investment scene, it is crucial at this point for USAID to continue its support. This is an area where donor coordination and leveraging of resources have proven to be effective. We are working with the World Bank, Asian Development Bank (ADB), Japan's Overseas Economic Cooperation Fund (OECF), and other donors on our privatization efforts and on marketing of BOT-type projects developed with our assistance. USAID has been working to provide the studies, technical assistance and training needed to support these programs. Other donors have provided and should continue to provide the resources for the capital and implementation costs. These programs also present opportunities for U.S.- Philippine partnerships through joint ventures and other forms of association. Thus, we will continue our support to the GOP to strengthen implementation of these programs.

Increased fiscal revenues and better budgeting for capital and maintenance expenditures: We are supporting GOP efforts to improve tax collections, reduce the distorting effects of taxation, improve cash management and treasury functions, improve capital budgeting, and effectively separate fiscal and monetary policy functions. In particular, we expect to finance technical assistance and training to the Bureau of Internal Revenue (BIR) to complement the World Bank's program to computerize BIR operations, to move from indirect to direct taxation, and to globalize and eventually phase-out tax incentives. Likewise, support will be provided to the Department of Budget and Management and the Development Budget Coordinating Committee to better plan for and prioritize projected capital projects, budget ongoing capital expenditures, and manage current expenditures.

Growth in business activity in targeted areas outside the National Capital Region: The Local Government Code has opened up opportunities that local communities can use to entice investors. Supporting mechanisms to encourage the mobilization of needed resources in the countryside include working with selected firms, both small and medium enterprises, in targeted areas to improve access to business services and commodities and market promotion of selected commodities. USAID activities in this area have a

significant impact on women as a larger proportion of small and medium enterprises in the Philippines are women-owned or operated. We are working with national and local business groups to generate better local environments for business and to improve local support services. We are also providing institutional support to private sector organizations in the regions which are enhancing local firms productivity, labor skills and operations. We are completing some ongoing infrastructure work in General Santos City, a major growth center in Mindanao, which will result in improved business support services in the transportation sector and which we are effectively using to mobilize other donor/investor resources. The Japanese and Italian governments are providing resources for other infrastructure facilities in the area in coordination with USAID.

Growth and increased diversity in financial and capital markets: Steps to strengthen the capital and financial markets have started, i.e., liberalization of bank branching, elimination of preferential reserve requirements on long term deposits, unification of reserve requirements, and adoption of policies for a one-price, transparent national securities market. More measures are needed. For example, the Central Bank has to be financially rehabilitated, the Philippine Deposit Insurance Corporation strengthened, the economy opened to foreign banks, and a unified stock market operated.

We will continue to address the extraordinary need to transform and develop the long term capital and financial markets in the Philippines. This is an effort where donor coordination is an important element. The World Bank and ADB are both actively involved in capital markets development, and their activities will complement ours. Donor coordination has led to a stratified approach to achieving policy reform in the financial sector, with the World Bank focusing on the macro-environment to restructure the Central Bank and the ADB targeting sectoral policy reform for the capital markets through the Department of Finance. USAID will direct assistance to the implementation of these policy reforms through a private sector-led effort and through technical assistance to the Securities and Exchange Commission (SEC) and the private sector. We will also provide technical assistance to the GOP in establishing other sources of capital funds for infrastructure investments such as the GOP's Private Sector Infrastructure Development Fund which will promote private investments in infrastructure.

Greater access to suitable U.S. technology in key sectors: The time is opportune to introduce suitable U.S. technology in all these key sectors: power, telecommunications, transportation and environmental protection. Particular technologies include, in the energy sector, clean-coal and use of alternative/renewable energy sources, e.g., geothermal, hydro, wind, and solar. In telecommunications, we are exploring the introduction of domestic satellite and ground receiving stations using U.S. technology, recognized as the most advanced in the world. USAID expects to

play a leadership role among various donors involved in planning and implementing transport projects, ensuring that U.S. firms have a fair opportunity to compete in procurements for capital equipment and technology. In the field of environmental protection, the U.S. is the world leader in innovative technologies and management.

To support greater access to (including awareness of) suitable U.S. technology, USAID will fund feasibility studies, technology familiarization activities (study tours, conferences, etc.), joint venture promotion efforts, assistance in identification/development of financing arrangements and possible policy analysis and advocacy on technology-specific issues in the key sectors. At the same time, this effort will support export of U.S. capital equipment and technological know-how, offsetting recent declines in U.S. market shares in the Philippines.

IV. ENVIRONMENTAL SUSTAINABILITY

Philippine biodiversity is well-known. Coastal waters surrounding the country have more than 2,300 fish species, as compared to 200 in the Caribbean. The forests still standing today support a rich collection of fauna and flora --at least 12,000 plant, 165 mammal and 570 bird species. The Philippines also has a high rate of endemic species. For example, seventy species of native land mammals and nearly one-third of the flora species here are unique to the Philippines.

The Philippine economy is highly dependent on the survival of delicate ecosystems--rainforests, upland watersheds, mangroves and coral reefs--that support the high level of biodiversity. Sixty percent of Filipinos make their livelihood from some form of forestry, agriculture, or fishing. Sixty percent of the protein in the Filipino diet comes from marine fish. Twenty-five percent of the catch is dependant on the coral reef ecosystem.

The pace of damage and destruction to the Philippine environment, just in the latter part of the century, is staggering. In the 1950's, ten million hectares of primary hardwood forests covered half the countryside. Today only about 0.8 million hectares are intact and uncut. Another 3.5 million hectares are now secondary forests: they have been cut but show significant regrowth. All the rest are gone.

The 18,000 km. long coastline had at least 270,000 hectares of shallow water coral reefs and 450,000 hectares of mangroves. Today only 30 percent of the reefs and mangroves is in good condition. Where there were many intact Philippines coastal ecosystems forty years ago, now there is only one remaining, on the remote southern island of Palawan.

PHILIPPINE ENVIRONMENTAL PROFILE

- The nation's population was estimated to be 67 million (M) in 1993; with an additional 60M to 80M people expected by 2020;
- About 60% of the population resides in rural areas and is dependent on natural resources for its livelihood;
- Only 700-900,000 ha of old growth dipterocarp forest remain which, at present cutting rates, will disappear within 7 to 12 years;
- Probably 50% of the endemic forest flora of the Philippines is now gone; it is possible that the figure could be higher;
- Since 1900 the area under mangrove cover, harboring 47 species of flora, 22 species of beach vegetation and more than 2,000 species of fish (as compared to 200 for the Caribbean), has been reduced 66%;
- As a result of water pollution the major river systems namely: Pasig, Tullahan-Tenejeros, San Juan and Paranaque-Lapote rivers have become biologically dead;
- Copper mining annually releases an estimated 200 MTs of mercury into coastal fishing areas. Between 80-150M liters of hazardous wastes are dumped in Philippine waters annually;
- Today, less than 20% of the Philippines' shallow water coral reefs are in good condition;
- Fish products account for 55% of national annual protein consumption. However, current annual catch (1.7M-MTs) exceeds the estimated sustainable yield (1.45M-MTs); and
- Air quality data shows that particulate matter, total suspended particles and lead concentrations in Manila exceed by 3.5 and 2.2 times, respectively, the recommended maximum.

As a result of this environmental degradation, threatened and endangered species number at least 133 species of birds, 30 species of mammals, 13 amphibian/reptile species and ten plant species. The Philippines has gone from a paradise to an ecological disaster in only a few decades. Without immediate steps to slow down the pace of degradation, the remaining forests, mangroves and coral reefs of the Philippines could be gone in just another ten years.

ENHANCED MANAGEMENT OF RENEWABLE NATURAL RESOURCES

Forty years ago, only twenty million people inhabited these islands. Since then, the population has more than tripled in size. Difficulties in managing this rich natural resource base began with the rapid population growth, and with the correspondingly rapid increase in the numbers of the poor.

The rapid increase in the number of people below the poverty line, now about thirty million Filipinos, has placed enormous pressure on the environment. Poor communities are caught in a double bind. Because they have few economic alternatives, poor communities exploit public lands for their livelihood. Because they have no rights to the land in the public domain, which is half the land in the Philippines, they have no incentive to leave anything behind, and even less to manage what is there. But destructive fishing methods, over fishing, and indiscriminate cutting for firewood are causing rapid decline in those very resources that poor communities depend on. Lack of sanitation and inadequate disposal of household wastes threatens not only the water supply but a key source of food and income from rivers and coastal areas.

The highly unequal distribution of wealth and political influence has also played a part in mismanagement. The government supported unsustainable exploitation of resources for years. Now the government is having difficulty in reducing exploitation of resources for short-term economic gain, and introducing sustainable management. Logging in primary forests is illegal, but a visitor is as likely to hear the sound of chainsaws as hear a bird call. Exploitation of the shoreline for commercial use is largely uncontrolled, without adequate regulation or enforcement for setbacks, erosion prevention or construction. With increasing industrial activity outside the capital region, industrial pollution is contaminating rivers and coastal sites in new areas.

A separate and independent Philippine Department of Natural Resources and the Environment (DENR) was created in 1986. From a collection of organizations with regulatory and rate-collecting authorities, DENR now has a development mandate. DENR faces an enormous and difficult task of reversing the poor use of public lands, bucking special interests, and changing what is by now custom, practice and habit in the exploitation of natural resources. DENR has made significant gains in formulating new policies; it has yet to make them work.

With the enactment of the Local Government Code in 1991, much of the mantle for putting environmental policy into practice has

passed to local governments. Few of the local governments have any experience in effective environmental planning and assessments, working with industry on pollution abatement, or mobilizing community management of natural resources.

President Ramos has made environmental protection a priority program of his administration, so that future generations will have the resources necessary for their development. The administration's program emphasizes the need to replace renewable resources, and the need for greater public awareness that environmental protection is a common responsibility.

Forest resources conserved and protected: In the early 1980's, USAID developed and tested models for a community-based approach to land and water resources management in settled uplands, rainfed agricultural areas and coastal zones. Other donors have followed with major investments. A contract reforestation program USAID developed, for example, led to a \$240 million reforestation program funded by the Asian Development Bank (ADB) and the OECF.

Policy reforms initiated include a ban on log exports, a logging ban on virgin forests, a 300 percent increase in stumpage fees and the establishment of public/private sector partnerships for managing secondary forest log.

Since 1990, USAID has used special supplement funding for the Philippines (the Multilateral Assistance Initiative) to extend its leadership position in sustainable management of natural resources, particularly forests. USAID's work on aerial surveys of primary forests stimulated an ADB loan to the GOP for more detailed surveys. USAID initiated the first debt-

for-nature swap in the country, capitalizing a Philippine environmental foundation that is attracting additional international funding. Other donors are following our work on new private sector linkages for sustainable management, indigenous cultures and community management, and environmental assessments of forest policies.

In the near term, we will continue to work with the government and private organizations on policy reform issues. USAID also will continue providing support for public awareness campaigns. Given U.S. expertise in these areas, we expect to provide leadership on issues that are making real change in this area so difficult. These include land rights, community management of forest lands, and private sector involvement in sustainable practices. Other donors are planning to take on the nationwide expansion of USAID's forest conservation and protection activities. As other donors begin to pick up these costs, the need for USAID funding in this area will start to decline over the strategy period.

Coastal resources management leadership provided: In the mid-80's, USAID projects developed the methodologies and models for community-based, participatory management of coral reef and mangrove ecosystems, now used in nearly all coastal projects in the Philippines. Through a regional program, USAID provided the leadership for an integrated management plan for the Lingayan Gulf. Other donors, including the World Bank and the ADB, have built on these initiatives with field level projects. These projects are producing tangible results, but unless they are part of an integrated approach to coastal resource protection and management, they will have limited impact on the widespread coastal degradation that is taking place.

We will work with the GOP to apply lessons learned from the demonstration activities to the formulation of national policies that facilitate coastal management at the local level. USAID also will strengthen the institutional capacity of NGO's, universities and government units in integrated coastal management, and encourage linkages among them.

On a field level, USAID plans rapid interventions to protect Palawan from inappropriate development. As an island with the largest, unique and pristine tracts of coastal habitat remaining in the Philippines, it is also the most productive: Palawan waters account for 80% of fish caught in the country. For areas that are already developed or damaged, we will promote implementation of the USAID/ASEAN Lingayan Gulf plan as a model for coastal management efforts.

Engaging in these strategic, low cost coastal management interventions will enable USAID to leverage resources and policies of the GOP and other major donors. Providing such leadership in coastal management will be the hallmark of our environmental portfolio by the end of the strategy period.

Industrial Pollution Abatement Approaches Adopted: USAID only recently began to work in this area, and will continue to do so during the strategy period. The environmental regulations needed are largely in place but, at this time, taking a legal approach to enforcement is too little and too late. Instead, USAID is taking the approach that much of the industrial pollution comes from industrial technologies that are out of date and inefficient. Businesses have little awareness of or incentive to invest in newer technologies, and do not realize that environmentally sound practices can save them money.

We are working with the government, industry groups, non-governmental organizations, and specific companies on these issues. Our approach is to raise environmental awareness, and to encourage the adoption of cost-effective practices that reduce or prevent pollutants at their source, or reclaim them when feasible. USAID also encourages the adoption of new technologies that protect the

It is estimated that between 20-40,000,000 liters of toxic wastes and between 80-150,000,000 liters of hazardous wastes are dumped in Philippine waters annually. Heavy metals, PCBs, acids, organic compounds and other toxic wastes are directly reducing, or rendering, commercially valuable fish and shellfish unfit for human consumption. The major sources of these pollutants are domestic waste water, industrial wastes and solid municipal wastes.

environment.

USAID is helping the government and industry to work together voluntarily to identify environmental risk and to agree on the use of new industry procedures and technologies. This approach is beginning to attract the interest of other donors. During the strategy period, we plan to work with the government on strengthening its enforcement of environmental laws and regulations.

Increased local government use of effective environmental planning and assessment: Local governments now have enormous responsibility for managing environmental resources in their areas. Our approach is to help develop mechanisms that local governments

can use to improve public participation in environmental issues. During the strategy period, we will work directly with a few progressive local governments. For these, our approach will be to improve their ability to conduct environmental assessments of local projects, and to encourage their use of environmentally sound planning methods.

Reduced population growth: As an integral part of our family planning programs we will support advocacy activities at the national level designed to heighten awareness of the impact of rapid population growth on the environment.

V. RESOURCE CONSIDERATIONS

A. PROGRAM STRUCTURE

Over this planning period the U.S. aid program will shift dramatically to a more traditional technical assistance effort while taking full advantage of the leadership position USAID enjoys with the GOP, private sector and other donors. This Strategy calls

for increasing emphasis on U.S. expertise and technology applied to eliminating constraints to Philippine development. U.S. resources will be directed at facilitating Filipino efforts both to efficiently use the considerable yet underutilized resources available from existing domestic and foreign sources, such as the multilateral banks, and to mobilize and allocate additional resources. Calculations indicate the Philippines loses as much as \$800 million annually from donor agency resources alone because of flawed policies, bureaucratic inefficiencies and lack of counterpart funds. Through grant funded assistance, we can provide the "software" or analytical studies, technical assistance and training to compliment and leverage other donor financing. The same holds true for private sector investment. Our grant funding, strong technical in-country presence and established leadership position make us singularly able to play this role.

This emphasis on a facilitative, as opposed to a direct financing, role for the U.S. assistance program is a significant change in modality yet appropriate to today's circumstances. It enhances the partnership aspect of the emerging U.S. - Philippine relationship and allows for significant leveraging of our declining resources. In previous years, the magnitude of our assistance effort allowed USAID to be involved in large budget/balance of payments support programs linked to policy reforms (an "IMF-like" program), major infrastructure financing (a "World Bank-like" program) as well as a more typical AID project portfolio. The "World Bank-like" program has been very staff intensive and over the past five years consumed \$220 million, a not inconsiderable sum. Although less staff intensive, the "IMF-like" program made use of nearly double that amount or \$503 million in those same five years. In line with the declining U.S.G. resources available for the Philippines, both of these approaches come to an end. Under the new Strategy we have limited our involvement in these "World Bank and IMF-like" programs to finishing those activities now nearing completion. No new money will go into these programs. The new Strategy represents a return to established AID programming.

While using traditional (and affordable) USAID program components - technical assistance, analysis, training and limited commodities - USAID will be able to influence and facilitate significant resource flows from other sources. By linking our program to those of other donors, the PVO/NGO community and the private sector in ways that speed and improve the utilization of this much larger resource pool.

B. PROGRAM RESOURCES

The challenge of promoting democracy while pursuing correct economic policies should not be underestimated. Nowhere in the Asia region has this dual objective been simultaneously pursued.

The opening up of the political system and the corresponding vulnerability of the political leadership to popular pressures, makes it extremely difficult to implement needed economic reforms which imply, at least in the short run, economic sacrifice for newly enfranchised social groups. Donor assistance will be critical to its success. DA and ESF funding must find their own level within the worldwide competition for these resources. PL 480 funding will do likewise. The Multilateral Assistance Initiative (MAI) remains a cornerstone to the success of this strategy. It is the account special to the Philippines, and it provides the mechanism for addressing the private sector and environmental policy issues crucial to creating rapid yet sustained economic growth.

As U.S. economic assistance resources become increasingly constrained, the Philippine experience under the MAI may serve as a useful model. Historically, the U.S. has played an active leadership role in the MAI, shaping the MAI policy framework and leveraging other donor resources to increase economic assistance flows for the Philippines. Even as our funding levels decline, this role and, assuming the MAI continues, the still significant grant resources available to us mean that we can continue to be an innovator and leader. If we are successful in this context vis-a-vis the MAI, and the Philippines moves toward "NIC" status by the turn of the century, then this approach involving focused and strongly coordinated donor support will have been validated. Indeed, to the extent we can demonstrate that democracy and development can be simultaneously pursued, we will have helped to create a paradigm with potential application in many parts of the third world.

The Strategy presented here is based on program levels beginning at approximately \$100 million in FY 1994 and declining gradually over the planning period to about \$70 million in FY 1998. Funding is expected from Development Assistance (DA), Economic Support Fund (ESF), Special Assistance Initiative (SAI), and PL-480 (Title II) sources. The DA, ESF and Title II accounts are expected to remain level throughout the period while the SAI account is expected to decline (see attached tables).

C. SPECIAL CONCERNS: Disaster Prevention, Mitigation and Preparedness (PMP)

USAID and other donors have responded to natural disasters in the Philippines on an ad hoc basis every year. Since the eruption of Mount Pinatubo in June 1991, however, the demand on USAID staff has been not only to provide assistance, but to play an active and time-consuming role in coordinating and managing disaster assistance for the Philippines.

The Philippines probably has more natural disasters than any other country in the world. Perched on two tectonic plates, and right in the middle of a typhoon belt, the country has 21 active volcanos and averages 20 typhoons or tropical storms a year. Despite the regularity of these events, the country has no effective mechanism for dealing with disasters.

The aftermath of the Mount Pinatubo eruption highlighted the need for more effective coordination among donors, numerous government agencies and non-governmental organizations in order to ensure an effective response. Every rainy season brings lahar flows and mudslides down from Mount Pinatubo, dislocation of thousands of people, and epidemics. In order to deal with recurring disasters, such as the lahar flows and typhoons, the government needs a strong, coordinated, and organized response mechanism. USAID is planning a short-term effort to establish such a mechanism in the Philippines for disaster forecasting, planning, coordinating, and monitoring. This would enable the government to make the most effective use of donor assistance, and relieve the management burden placed on donors, particularly USAID.

D. CONCLUSION

Now in the waning years of a century of close association between the U.S. and the Philippines, the Philippines has posted an ambitious goal for itself: reaching NIC status by the opening of the next century. U.S. assistance can play a critical role in meeting this challenge and, by so doing, help build a mature partnership between the two countries. The next several years are a make or break time for the Philippines. If the country follows through on the reform program initiated by the Aquino Government and structures the Philippine economy to compete in the international marketplace, the country can take its place in the world economy along with its successful Asian neighbors. If the Ramos administration takes steps to strengthen Philippine democracy and to broaden the reach of economic growth, it could well serve as a counterpoint to the authoritarian regimes of Asia and a model for developing countries worldwide. If it does not make the hard choices now, the dynamism of Asian growth will pass the Philippines by and relegate it to third world status continuously struggling with poverty but never quite succeeding.

The long association between the U.S. and the Philippines combined with the leadership role USAID has developed within the development community place us in a singular position to assist the Philippine bid for consolidating democracy, achieving sustained growth and eventually gaining NIC status. With our grant financing and a strong, in-country technical presence we are in a unique position to influence the policy setting and remove institutional bottlenecks that impede effective utilization of significant

private capital and other donor financing available to the Philippines. And, we can guide the use of environmentally sound solutions to the development problems encountered.

The strategy proposed in this document seeks to establish a mature future partnership between the U.S. and the Philippines promoting our shared interest in democracy and development. Three closely interrelated sub-goals form the substantive umbrellas for the U.S. assistance effort and define the important stages along the way to the desired partnership. Responsive Democracy reflects concern for institutional transparency, freedom and the political empowerment of the individual that gives them greater control over their own lives. It is broader than just the popular election of government, although that is an essential element. It extends to the enabling of informed choice in employment, family size and resource utilization. Economic Partnership implies strong economic ties built upon free association for mutual gain. It requires open and competitive markets that foster the efficient utilization of resources. Environmental Sustainability embodies our common interest in protecting the world we live in and using its resources wisely. It captures the need to bring an immediate halt to the extensive environmental degradation underway in the Philippines.

Within these three sub-goals, USAID has set five strategic objectives to accomplish over this five year period. Our resources, assuming they are within the magnitudes forecast, will be devoted to putting these objectives in place by the end of the current Philippine Government term.

Strengthened Democratic Institutions include local government, PVO/NGOs and community organizations exemplifying the idea of voice and choice in allowing people to have a say in affairs affecting their welfare. Improved Health and Well-Being contributes to broadened opportunities through better health and nutrition, family planning choices, and community based credit and skills training programs. Creating A More Open Economy requires following through on policy reform in areas such as tariff rate structures, foreign exchange rate liberalization, banking reform and investment incentives that will lead to better integration of the Philippine economy into the world market. Increased Productive Investment leads to an increase in employment, a critical factor in consideration of Philippine development needs. It requires better mobilization of both public and private resources and demands their efficient application. Much of the Philippine economy is dependent on the accessibility of certain natural resources. To assure the continued availability of these resources and to protect the natural Philippine environment will require the Enhanced Management of Renewable Natural Resources.

If the Filipino Government makes the right choices over the next several years, and U.S. assistance continues to be a significant resource in shaping means to overcome critical development

PHILIPPINE ASSISTANCE STRATEGY

constraints, the Philippines will be well on its way toward NIC status early in the next century. The U.S. assistance program at that point could be scaled down to levels appropriate to a graduating country. If our strategy succeeds, we envision an FY 2002 Philippine program similar to what is underway in Thailand today or Korea a little over a decade ago.

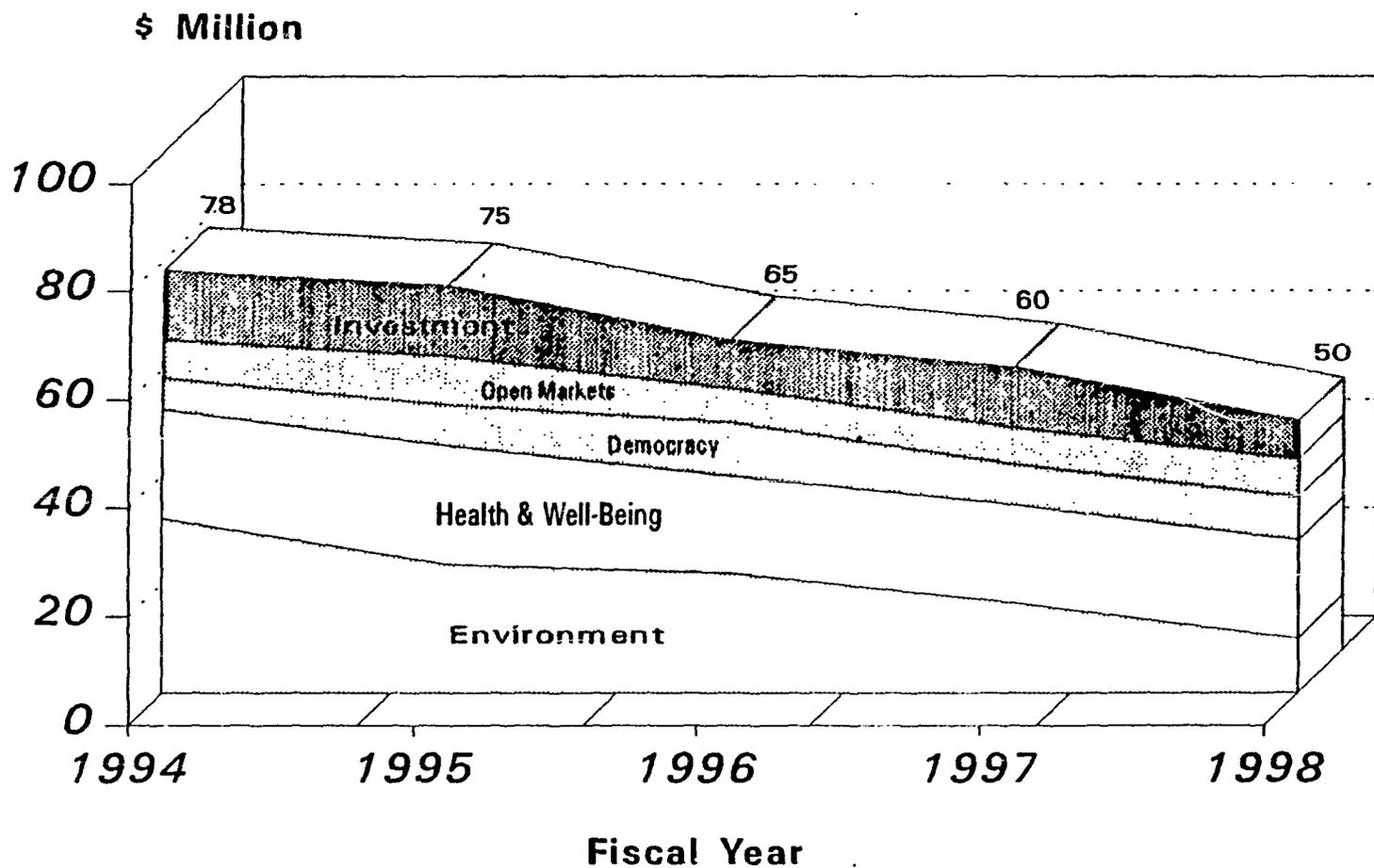
**RESOURCE ALLOCATIONS BY STRATEGIC OBJECTIVE
(IN \$000)**

STRATEGIC OBJECTIVE	FISCAL YEAR					TOTAL FY 94-98	
	1994	1995	1996	1997	1998	AMOUNT	%
RECAP							
1.0 MORE RESPONSIVE SELECTED DEMOCRATIC INSTITUTIONS, WITH GREATER CITIZEN PARTICIPATION	\$6,000	\$7,563	\$9,777	\$7,501	\$8,000	\$38,841	12%
2.0 IMPROVED HEALTH AND ECONOMIC WELL-BEING OF TARGETED POPULATIONS. (P.L. 480 *)	\$20,114	\$21,727	\$17,871	\$17,974	\$18,000	\$95,686	29%
	(\$20,000)	(\$20,000)	(\$20,000)	(\$20,000)	(\$20,000)	(\$100,000)	
3.0 MORE OPEN MARKET ECONOMY	\$6,974	\$9,071	\$6,435	\$6,678	\$7,000	\$36,158	11%
4.0 INCREASED PRODUCTIVE INVESTMENT	\$12,912	\$13,000	\$8,918	\$11,347	\$7,000	\$53,177	16%
5.0 ENHANCED MANAGEMENT OF RENEWABLE NATURAL RESOURCES	\$32,000	\$23,639	\$21,999	\$16,500	\$10,000	\$104,138	32%
TOTAL	\$78,000	\$75,000	\$65,000	\$60,000	\$50,000	\$328,000	100%

* Non-addition

USAID PHILIPPINES

Resource Allocations by Strategic Objective

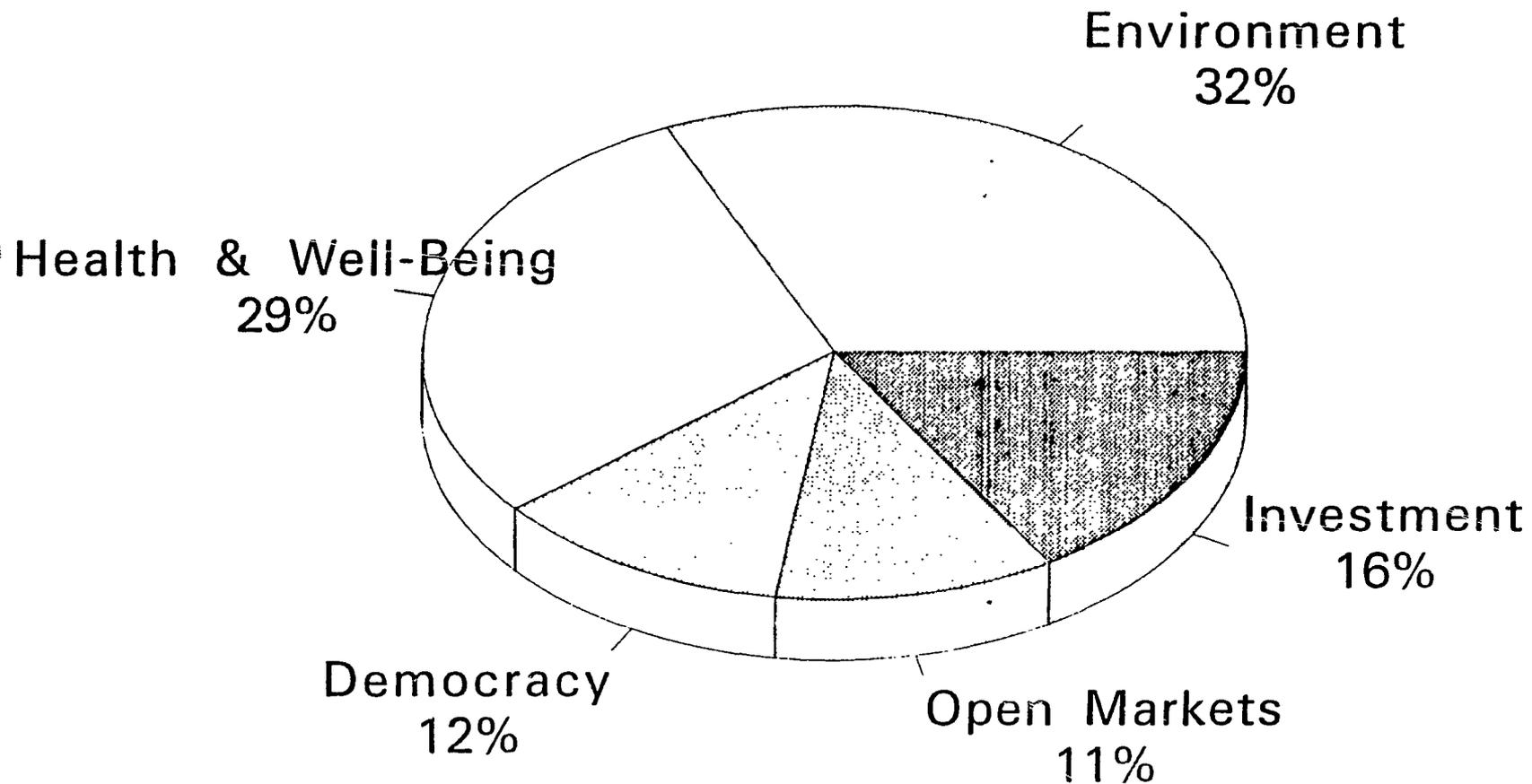


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USAID Philippines

Resource Allocations by Strategic Objective Over the Full Five-Year Period



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34

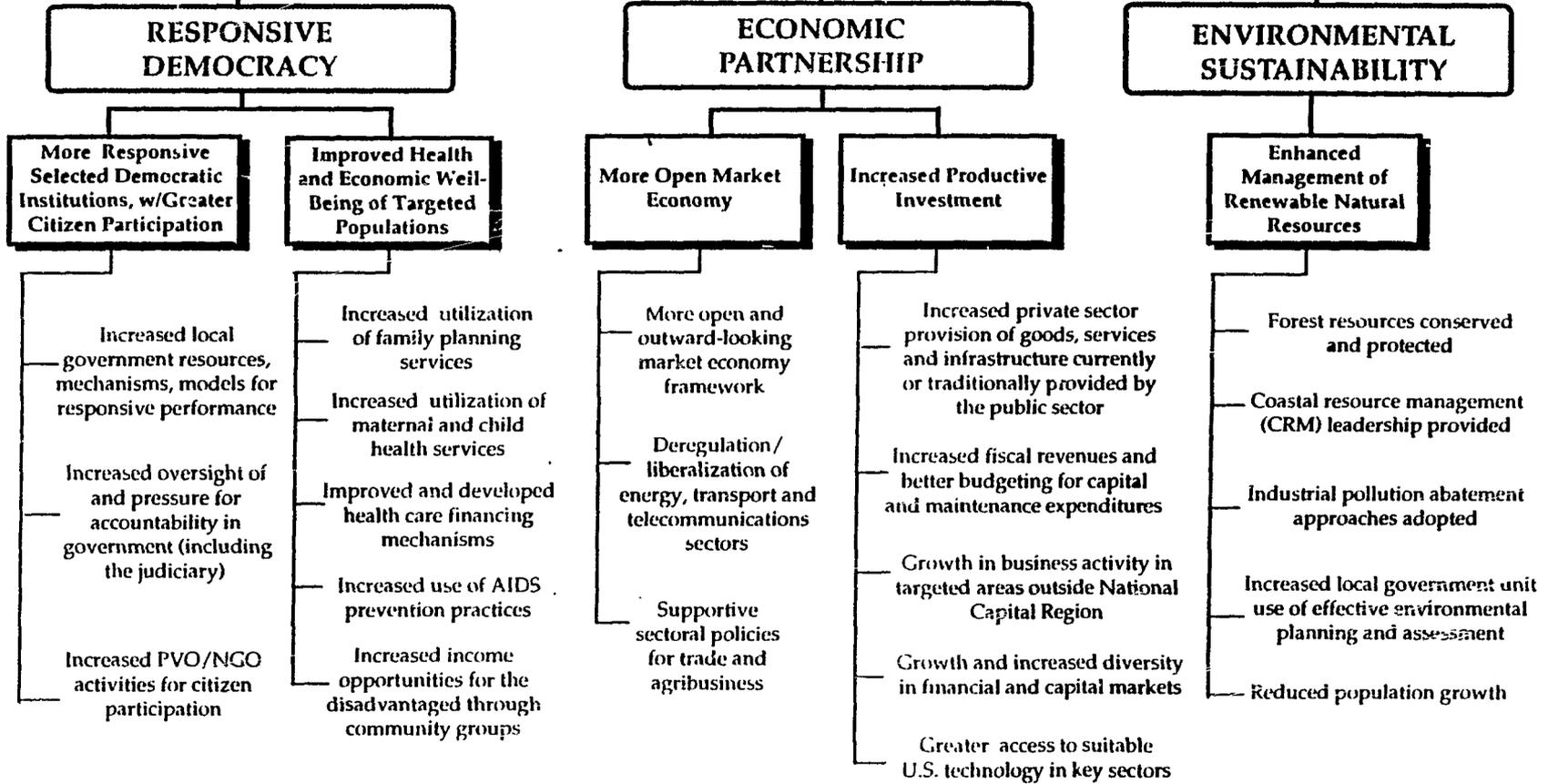
NEW U.S.-PHILIPPINE PARTNERSHIP FOR DEMOCRACY AND DEVELOPMENT

GOAL →

SUB-GOALS →

STRATEGIC OBJECTIVES →

PROGRAM OUTCOMES →



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40

19 May 1993