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AIDING INEQUALITY

The General Santos City
Project in the Philippines

by John P. McAndrew
Columban Fathers
Justice & Peace Office

A Publication of the Philippine Development Forum

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The Philippine Development Forum

The Philippine Development Forum (PDF) is a network of U.S.-based individuals and organizations from the environmental, development, religious, and human rights communities. The purpose of PDF is to work in partnership with a broad range of Philippine non-government organizations (NGOs) to promote awareness and facilitate dialogue on equitable and sustainable development in the Philippines.

PDF's goals are: 1.) to raise public awareness about equitable and sustainable development in the Philippines; 2.) to promote cooperation and linkages among NGOs working on environmental and development issues in the U.S. and the Philippines; and 3.) to educate policy-makers in the U.S. and multilateral aid communities on Philippine NGOs experiences and views of development.

PDF is structured on the dynamic involvement of three groups: the U.S. members; the Philippine partners; and the PDF staff. The PDF staff coordinate and organize many of the PDF activities. However, PDF members provide the energy and actually plan and carry out much of the work through involvement in the steering committee and sub-committees. PDF's strategic areas of focus for 1993 are foreign aid, debt, trade and investment, the peace process and the conversion and clean-up of the U.S. bases.

Views expressed in this report are solely those of the author; not those of persons associated with the project nor necessarily those of Philippine Development Forum.

Aiding Inequality: The General Santos City Project in the Philippines

John P. McAndrew

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Executive Summary

The Philippines has been one of the major recipients of U.S. aid over the post-war period, most recently under the rubric of a Multilateral Aid Initiative (MAI) to the government of Corazon Aquino. Citizens' groups in both the United States and the Philippines have raised a number of questions about the MAI-funded projects. Whom have they benefitted? Who has participated in their design? Do they exacerbate or lessen the severe inequities that stand as a formidable impediment to Philippine development? Do they support development that is ecologically sustainable?

To help answer these questions, the Philippine Development Forum (PDF) commissioned me to review one of the largest U.S.-aid projects in the Philippines namely, the MAI-funded General Santos Special Development Zone Project in southern Mindanao. In this assessment I use the Covenant on Philippine Development (an agreement of Philippine development NGOs based on the United Nations Declaration on the Right to Development) as a standard to evaluate the above project on principles of participation, equity, and ecological sustainability.

The General Santos Special Development Zone Project seeks to optimize the value of agricultural and marine resources such as cash crops, livestock, poultry and fish that are traded in the city by farmers and fisherfolk. The project also aims to accelerate the agro-industrial development of General Santos City and the province of South Cotabato by encouraging the inflow of private investments in such areas as post-harvest and service facilities. Specifically, the project aims to benefit an estimated 25,000 small fisherfolk around the Sarangani Bay area, as well as an estimated 50,000 small-scale farmers in the province of South Cotabato.

The total estimated cost of the General Santos project is US\$ 213.5 million with US\$ 106.8 million financed by the United States Agency for International Development

(USAID). The major USAID-funded components are the improvement of roads, the improvement of Makar Wharf, the construction of a new airport at Tambler, and the development of a growth plan. The major non-USAID funded components include the construction of a fish port and the construction of an agro-processing center. Feasibility studies have been concluded for all major components and most activities are scheduled to be completed by 1995. What follows is a summary of my initial conclusions about the likely impact of each major component.

Improvement of Roads

The improvements consist of upgrading 158 kilometers of gravel/earth roads to all weather paved roads of asphalt concrete. The general objective of the improvements is to facilitate the movement of goods and people in the General Santos development zone.

Road sections and sectors for improvement were chosen on the basis of which ones were likely to generate an internal rate of return (IRR) of more than 15 per cent if upgraded. The selection was determined by a USAID-funded feasibility study. The benefits included in the IRR computation were vehicle operating cost savings, road maintenance cost savings and passenger time savings. Although not included in the IRR computations, development benefits expected from higher farm-gate prices and increased agricultural production were considered in the evaluation of the component's economic feasibility. These benefits were assumed to take place as a consequence of lower transportation costs.

While the feasibility study does make an earnest attempt to quantify the development benefits arising from the road improvements, the exercise suffers from some serious defects. The basic assumption that lower transport costs translate into higher farm-gate prices and in-

creased agricultural production needs to be tested as a hypothesis rather than accepted as a proven fact. Also benefits from rural infrastructure development projects in the Philippines rarely trickle down in an equitable manner since relations that link creditors and debtors, landlords and agricultural laborers, and employers and workers are unequal in the extreme.

To learn more about the agricultural production systems and the potential impact of the improved roads in selected communities, I visited five villages along three of the road sectors. While far from exhaustive, the visits provide enough insight into the potential impact of the roads to offer some initial conclusions. Among them: 1.) The road improvements will do little to stimulate increased agricultural production; 2.) The road improvements will benefit creditors more than small farmers and fisherfolk; 3.) The road improvements will benefit landlords and tenants more than agricultural workers; 4.) The road improvements will not enable small farmers to overcome recurrent problems of low-cost credit and the lack of post-harvest facilities; 5.) The provision of an improved and reliable water supply through accelerated reforestation and the installation of irrigation facilities have greater potential to benefit farmers in the area than the improvement of roads; and 6.) The road improvements will benefit bus owners and passengers more than agricultural producers.

Of all the road sectors scheduled for improvement, the Surallah — T'Boli road is the most environmentally sensitive and politically controversial. If the Surallah — T'Boli road is improved to promote mining activities in the municipality, it will cause widespread ecological damage and social disruption.

Improvement of Makar Wharf

Makar Wharf is the public port of General Santos City. A USAID-funded feasibility study recommends several managerial and construction improvements to augment the operational efficiency and handling capacity of the existing wharf.

Starting from the premise that the expedient flow of goods through Makar port is critical to the growth of the local economy, the feasibility study makes the case that all residents of South Cotabato will be direct beneficiaries of the proposed improvements. This observation made, the study fails to demonstrate how local economic growth effectively translates into trickle-down benefits at

the farm level. While the study traces movements in the increased agricultural production that is projected to pass through Makar Wharf, it does not discuss the role of small producers in relationship to those movements.

While upgrading the wharf may make it easier to export more crops, increases in corn productivity, for example, are unlikely to benefit small producers primarily. To some extent increased yields will be dependent on the increased use of fertilizer, pesticides and other inputs. Corporate agribusiness manufacturers and suppliers will profit immensely as markets for their products open up. As pre-harvest expenses increase, creditors will be asked to advance more money and inputs and, in return, will exact a proportionate share of the expected gain. Ultimately, environmental damage resulting from greater use of inputs will undermine productivity. Improved corn productivity in South Cotabato will also be directly related to increased use of hybrid seeds and, under present conditions, this will mean greater profits for multinational seed corporations and extension of their control over small producers in contract growing.

What can be concluded from this analysis is that benefits from the Makar Wharf improvements will go to the more powerful actors in the local economy. Large corporations and creditors will reap the principal benefits. Small producers who generate high value-added for corporations but not for their own households and communities cannot be counted among the primary beneficiaries of the wharf improvements.

Noticeably absent from the forecasts of the feasibility study is the impact of the Espina Industrial Estate on the projected composition and volume of cargo shipped through Makar Wharf. The 973 hectare estate property scheduled for private sector development lies adjacent to the Makar Wharf across the national highway. The transition of the Makar Wharf from a general cargo terminal into a multipurpose terminal would facilitate the flow of goods in and out of the estate and underwrite an essential component of its infrastructure. Corporate investors in the estate would benefit considerably from the port's improved capacity to accommodate containerized cargo and foreign vessels. The development of the estate and the improvement of Makar Wharf appear interrelated and for that reason it is puzzling to note that the anticipated flow of goods between the wharf and the estate were not considered in the throughput projections of the feasibility study.

The Makar Wharf feasibility study also assesses the area's energy capacity. Despite its exhaustive treatment of environmental concerns, the study's support for the development of the highly controversial geothermal power plants on Mount Apo, some 150 miles away, is disturbing. Indigenous people from nine tribes in southern Mindanao are opposed to the project, and are supported in their opposition by some government officials, church leaders, and a broad network of development and environmental non-government organizations (NGOs) in the Philippines and in other countries.

Construction of an Airport at Tambler

To upgrade air service to General Santos City, a USAID-funded feasibility study explored a number of options and concluded that the preferred alternative was the construction of a new airport at Tambler. The proposed airport would accommodate jet aircraft with high payload capacities.

Based on the feasibility study's economic analysis, the local economy of General Santos City and South Cotabato is reported to have the highest potential to benefit from the construction of the Tambler airport. Upon closer scrutiny, however, it becomes evident that the actual beneficiaries of the new airport are not sectors in the local economy such as small fisherfolk and farmers but tuna exporters and global agribusiness corporations like Dole Philippines.

The primary recipients from diminished tuna spoilage and reduced flight bump-offs that a new airport would bring are exporters of fresh tuna. One cannot assume that increased efficiency in exporting tuna will necessarily result in higher landing prices paid to tuna catchers. Nor can one assume that benefits realized by fishing crews will be shared equitably. In addition, there is reason to be concerned about promoting tuna exports, given that the Moro Gulf and adjacent waters are reported to be overfished already.

The primary recipients of benefits derived from increased production of agricultural exports that would be shipped by air are agribusiness corporations. Under conditions of contract growing, small producers will reap unequal benefits relative to those of the corporations. While high value-added will likely be generated through the crops produced, a large percentage of the value-added will go to corporate stockholders rather than to house-

hold and community cultivators.

In addition to the benefits expected to accrue to tuna exporters and agribusiness corporations, the feasibility study argues that the construction of the Tambler airport will help to attract foreign manufacturing investment. But with raw materials supplied mostly by imports, the earnings of export-oriented manufacturing in zones like the Espina Industrial Estate are limited to the value-added of Philippine labor performing low-wage tasks in the zones. Export sales of light manufactured goods are also highly contingent on the exigencies of a world market that has been suffering recession for several years.

Development of a Growth Plan

The overall goal of the growth plan is to support private sector-led growth in the General Santos development zone. At first glance, the process goals of the growth plan appear to incorporate sustainable-development principles of participation, ecological sustainability, and equity. However, by accepting the building of roads, wharf, airport, fish port and agro-processing center as given, it becomes clear that the plan anchors and defines itself as an activity in support of the infrastructure projects now under implementation.

Rather than trying to develop a consensus on future strategies for regional projects, the growth plan tries to build consensus on investment models in support of infrastructure projects already initiated. In doing so, the plan exhibits the same bias for corporate-led growth that underlies the other components. Given the nature of the growth plan as a government-to-government initiative emphasizing private-sector support of the infrastructure projects, it is not surprising that the primary participants in the exercise, to date, have been government officials and corporate business leaders.

While the growth plan laudably seeks "to follow an iterative process with the maximum amount of consultation possible with all interests and social strata," it appears, in large measure, to be a product of its own history, i.e. a plan that builds on an undemocratic process, already in place, to determine how major allocations of funds will be made.

In response to low and unevenly distributed family income in South Cotabato, the growth plan talks about building "a network of profitable private-sector enterprises that will generate income, employ local labor and serve

as models for the future.” But by relying primarily on private-sector enterprise to generate economic growth, the growth plan sidesteps the problem of economic disparity in a region where a few large enterprises have historically perpetuated the poverty of the rural poor.

Construction of a Fish Port

The revised master plan for the construction of a fish port at Tambler provides for three separate landing areas; one for small-scale municipal fishers landing fish for the local market, one for small-scale municipal fishers landing sashimi tuna for export, and one for large-scale commercial purse seiner fishers landing tuna for nearby private canneries.

Reviewing potential impacts of earlier master plans, a USAID-funded draft environmental assessment advises against the construction of a purse seiner landing at the fish port. The assessment cites a study which links purse seiner fishing and the use of fish aggregating devices with the catching of small-sized, immature skipjack tuna processed by the canneries. It also notes that tuna stocks in the Moro Gulf and adjacent waters are reported to be heavily overfished already. If the fish port is constructed with three purse seiner landings as approved under the current master plan, it will contribute to unsustainable harvest practices that may ultimately destroy the fishery.

The impact of fish port facilities on the supply of fisheries of municipal fishers is somewhat different. According to the environmental assessment, the construction of fish landings for municipal fishers at Tambler would improve existing conditions without resulting in a significant depletion of the fisheries. With genuine participation in the development and management of the fish port, municipal fishers would apparently stand to benefit.

If the construction of the fish port does indeed result in higher prices for fish, the shares of individual crew members will likewise increase. However, sharing systems allocate the largest shares, by far, to those who finance the expeditions and own the boats and fishing gear. Incremental increases in the shares of ordinary members of fishing crews will not generate capital sufficient to allow them to purchase their own boats and gear and to finance their own operational expenses. Likewise, these increases will not transform the sharing systems that bind ordinary fisherfolk to financiers and owners in dependency relationships.

Perhaps more than any other entity, the corporately-owned canneries in General Santos City will benefit from the public construction of the fish port. Currently, the canneries do not have adequate cold storage facilities. With three purse seiner landings at the fish port and refrigeration facilities sufficient to store large quantities of fish, the canneries could conceivably operate for 24 hours a day. On the other hand, it is unclear how the largely contractual workforce at the canneries will benefit significantly.

Construction of an Agro-Processing Center

The agro-processing center (APC) is envisioned to be an integrated agro-industrial processing and marketing center developed by the private sector to increase the value-added of agricultural products from South Cotabato. It involves the construction of facilities for crop processing, livestock processing and support infrastructure. The Marubeni Corporation of Japan was the only company to meet the pre-qualification requirements and, therefore, will negotiate with the Philippine Department of Agriculture for the construction of the APC on the basis of the proposal it submits.

The APC crop processing complex is envisioned as a post-harvest facility that will help to minimize product spoilage by processing goods locally. But post-harvest corn losses occur largely at the farm level and the construction of an APC crop processing facility would do little to prevent these losses. The more post-harvest crop losses are minimized at the farm level, the more production will reach the marketplace and small producers will benefit from the project.

Alternatively, were corn cribs to be made available to small farmers and corn shellers with blowers to be made available to farmer cooperatives, post-harvest spoilage would likely be reduced more dramatically. These would generate more income for rural producers than would large-scale capital-intensive infrastructure built in the city. The same observation could likewise be made if rice threshers, driers and mills were to be made available to village cooperatives and if copra driers and storage bins were to be made available to small producer associations.

The proposed construction of a livestock terminal at Makar Wharf also brings into question the value of the APC livestock processing complex. The livestock terminal appears to make more economic sense as a strategy

to reduce weight loss than does the frozen meat option of the livestock processing facilities. While local companies face formidable obstacles processing livestock in General Santos City for the domestic market, foreign corporations such as those in the Marubeni group of companies are positioned to profit immensely from exporting meat products to overseas markets. But who then would gain from the value-added generated locally?

In contrast to the proposed urban-based capital-intensive APC, the executive director of the South Cotabato Foundation, Inc. (the only NGO representative to sit on the board of the General Santos project), favors a more dispersed strategy of infrastructure development with community-based value-added activities taking place over a wider area and with more accessible technology. This approach, he argues, would allow farmer organizations to buy into the project and allow small entrepreneurs to complement big business initiatives. It would also help to promote a more equitable sharing of benefits.

The fact that more crops and livestock could be processed in South Cotabato does not necessarily mean that increases in value-added would be passed on to small producers. Gross provincial revenues may increase but these gains may not find their way into household incomes. Projects designed to increase the value-added of agricultural products must also embody a process that promotes the social and economic empowerment of primary producers. It is doubtful that Marubeni would design and operate the APC in ways that advance the participation and equity sharing of small producers.

Conclusions

The General Santos Special Development Zone Project proceeds on the premise that infrastructure development is the most important factor in the development equation and that basic installations and facilities have to be in place before the economy can take off. The project assumes that once roads and wharfs are improved, and airports, fish ports and agro-processing centers are built, then production will increase and diversify, value will be added, and benefits will trickle down to small producers.

Above all else, our assessment raises serious questions about the validity of the assumptions underlying the project's design. To be sure, some economic growth will take place as a consequence of the project for it is likely to open up the city and the province further to foreign

investment. And some sectors within the local economy such as large purse seiner operators, cannery owners, tuna exporters, and agribusiness producers and processors will benefit from increased value-added. But rather than advance small producer participation, equity sharing and ecological sustainability, the corporate-based export-led bias of this growth is likely to promote increased foreign control over local communities in fragile ecosystems.

Ultimately, the project fails to come to terms with a fundamental social reality: unless infrastructure improvements are specifically designed to meet the needs of the poor, they will primarily favor those who control access to resources, capital, technology and markets. Steps to increase income and employment opportunities should also empower small producers in relation to dominant economic forces. Unless efforts are made to increase the bargaining power of small farmers and fisherfolk, the primary benefits realized from higher value-added in crop diversification and post-harvest processing will not accrue to them.

Toward an Alternative Vision of U.S. Foreign Aid

Unfortunately, too much bilateral and multilateral aid to the Philippines contributes more to blocking equitable and sustainable development than it does to realizing it. David C. Korten, an expert on development processes and strategies, reviews case studies from Southeast Asia including the Philippines and concludes that the "dysfunctions of the international development assistance system are beyond fine tuning. The system and its goals must be fundamentally transformed." In framing competing visions and strategies, Korten offers criteria to assess the extent to which international assistance is a force for social justice, sustainability, and inclusiveness.

In response to the efforts of the United States House Foreign Affairs Committee to rethink foreign assistance, a broad range of U.S. NGOs contributed to the drafting of the Development Cooperation Act of 1990. The purpose of the act was to help U.S. development assistance become more effective in the promotion of a process of long-term development that is equitable, participatory, environmentally sustainable and self-reliant. The draft act has only become more relevant over the past three years.

Complementing the efforts of the Philippine Caucus of Development NGO Networks (CODE-NGO) to forge the

Covenant on Philippine Development, the Green Forum - Philippines has produced a detailed alternative development economics that promotes community-centered development. This is but one of the innovative development alternatives that Philippine citizens' groups are articulating in response to the failure of the current Philippine government-sponsored model of export-led growth.

In the case of South Cotabato the net flow of wealth out of the province has to be reduced with local communities assuming more control over the management of their resource base. This entails the mobilization of strong people's organizations in the implementation of aquatic and agrarian reform, the access of capital and credit, the utilization of appropriate technology, and the creation of more equitable market relations. My preliminary interviews with community residents and NGO leaders in the province indicate that, if the project were to embody a participatory approach, project components might focus on communal irrigation and water systems, post-harvest storage and processing facilities at farm and community levels, credit and marketing associations, training in methods of regenerative agriculture, communal reforestation, and preservation of the Sarangani Bay fishery. Allowing a program to emerge out of a learning process approach would mean less but better aid to South Cotabato and do more to achieve the goals of equitable and sustainable development.

As long as U.S.-foreign assistance is driven by strategies that are growth-centered and enterprise-led as opposed to community-centered, equity-led and ecologically sustainable, it will not benefit the majority of the Filipino people, especially those living under conditions of extreme poverty. In fact, the pursuit of these strategies will only exacerbate the debilitating conditions of the Filipino poor and the serious problems that confront their environment.

Postscript

Since the completion of this report in August 1992, there has been considerable discussion among policy makers and citizens' groups in the United States on the role of U.S. foreign aid in the post-cold war era. In a speech before the Senate on 28 January 1993, Senator Patrick Leahy, Chairperson of the Foreign Operations Subcommittee of the U.S. Senate Appropriations Committee, declared that U.S. foreign aid is in need of fundamental reform and that the Clinton administration and Congress

cannot afford to delay the complex task of redefining foreign aid goals and the restructuring of USAID.

Building on their collective insights and experiences, citizens' groups in the United States have been at the forefront of the foreign aid debate offering bold, incisive responses to the current impasse. InterAction, a coalition of more than 140 U.S. private and voluntary organizations, recommends that the new administration take a series of organizational steps to revitalize international aid programs. These include reduction in military assistance and efforts to refocus resources toward sustainable development, encompassing poverty alleviation and natural resource preservation.

The Independent Group on the Future of U.S. Development Cooperation also recommends that U.S. development efforts be fundamentally restructured and focused on the goal of sustainable development, specifically investing in people, protecting the earth, and strengthening the institutions of free societies. The authors further propose that USAID be replaced by a Development Coordination Group at the White House level and by a Sustainable Development Cooperation Agency at the Department level.

Bread for the World, a U.S. Christian citizens' movement of more than 44,000 people, has launched its 1993 Offering of Letters Campaign entitled 'Many Neighbors — One Earth: Transforming Foreign Aid.' The campaign seeks to make the reduction of poverty and hunger in environmentally sound ways the leading purpose of U.S. foreign assistance, and to expand programs that support these goals by shifting funds from military and security aid and from lower priority economic aid. As an integral part of its campaign, Bread for the World will work with members of the administration and the 103rd Congress to write a non-binding resolution asking President Clinton to revise foreign aid policy and funding priorities accordingly.

Among many in the development community there is a growing consensus that public development foundations are more capable of supporting poverty alleviation and protection of the earth's resources than conventional development assistance agencies. "If the goal of U.S. international assistance policy is indeed to advance the broadly based economic and political participation of all people," argues David C. Korten, "then the public development foundation mechanism should become a centerpiece of U.S. development assistance programming."

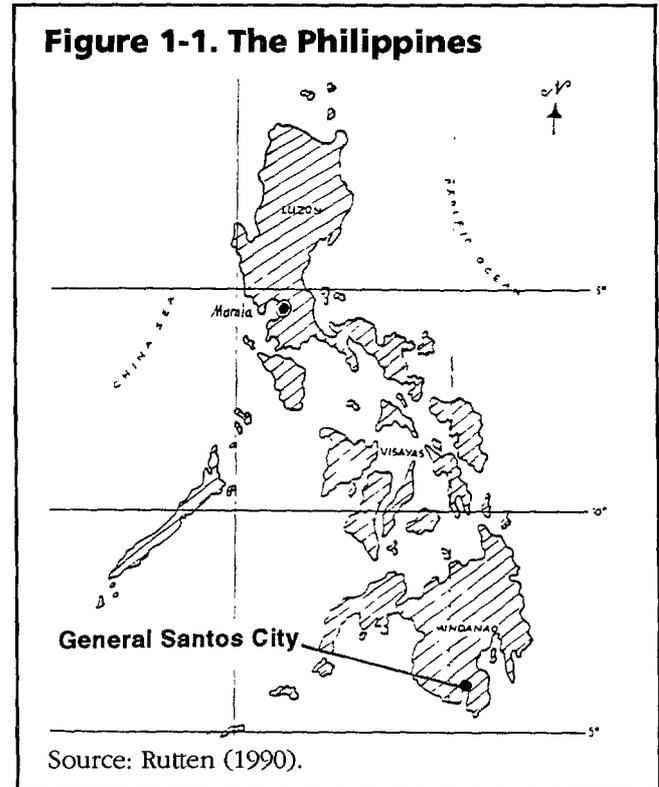
Chapter 1

Introduction

The Philippines has been one of the major recipients of U.S. aid over the post-war period, most recently under the rubric of a Multilateral Aid Initiative (MAI) to the government of Corazon Aquino. Citizens' groups in both the United States and the Philippines have raised a number of questions about the MAI-funded projects. Whom have they benefitted? Who has participated in their design? Do they exacerbate or lessen the severe inequalities that stand as a formidable impediment to Philippine development? Do they support development that is ecologically sustainable?

To help answer these questions, the Philippine Development Forum (PDF) commissioned me to review one of the largest U.S.-aid projects in the Philippines, namely, the MAI-funded General Santos Special Development Zone Project in southern Mindanao (Figure 1-1). Prior to my research, PDF members had drafted a position paper on U.S.-bilateral aid to the Philippines to help focus critical issues for discussion. The paper pointed out that each year the U.S. allocates tens of millions of dollars to the Philippines in development and security-related assistance. It noted that as a result of the rejection of the U.S.-base agreement, the composition and amount of that assistance was likely to change. Still the essential problems and opportunities facing the future of development assistance to the Philippines were likely to remain the same.

And what were these dilemmas? A general feeling existed among Philippine and PDF-affiliated NGOs that U.S. bilateral aid had contributed at least as much to blocking sustainable and equitable development as it had to realizing it. Among the problems that had plagued foreign aid were three: 1.) a fundamental lack of concern with issues of equity and distributive justice; 2.) a concern for preserving the fragile Philippine environment which rarely went beyond rhetoric; and 3.) the lack of input from Philippine non-government organizations (NGOs) and people's organizations (POs) in the identification, design, and implementation and evaluation of U.S.-funded projects.



Alternatively, the position paper looked to the Covenant on Philippine Development as a standard against which entire foreign aid programs and specific projects could be evaluated. This document, based on the United Nations Declaration on the Right to Development, was drawn up by the Caucus of Development NGO Networks (CODE-NGO) and signed on 4 December 1991 by more than 580 separate organizations. One of the conditions for Philippine development enshrined in the covenant was that:

The Philippine government must make sure that all foreign assistance directly benefits the majority of the Filipino people, especially those living under conditions of extreme poverty. The government must also ensure that NGOs and POs are consulted and involved in [foreign aid]-funded development programs and projects (Caucus of Development

NGO Networks 1991: 5).

With these thoughts in mind, PDF encouraged research on Philippine foreign aid projects implemented by the United States Agency for International Development (USAID). The present report builds on earlier work of PDF members and offers a critical assessment of the General Santos Special Development Zone Project in southern Mindanao funded under the Multilateral Aid Initiative. Its purpose is to critically examine the project's assumptions, contributions, and impacts in relationship to basic principles of participation, equity, and ecological sustainability laid down in the Covenant on Philippine Development. As defined by the Covenant:

[D]evelopment is a comprehensive economic, social, cultural and political process, which aims at the attainment of a better quality of life for the people and the protection and conservation of the environment that is based on the active, free and meaningful participation of the people in development and on the fair distribution of benefits resulting therefrom (Caucus of Development NGO Networks 1991: 1).

Method

In writing this assessment, I employed three basic research methods. First, I conducted interviews with key management staff, private-sector participants, and NGO personnel interested in the project (see Figure 1-A for a list of people interviewed). Secondly, I visited major projects sites and talked with community residents in those areas. Thirdly, I evaluated relevant project documents including feasibility studies and environmental assessments.

Chapter 2 of this report reviews the major USAID-funded components of the General Santos project. Chapter 3 evaluates the major non-USAID funded components. Chapter 4 includes general conclusions and offers criteria and frameworks toward an alternative vision of U.S. foreign aid. Appendix 1 presents a detailed description of the project. Appendix 2 discusses some of the early concerns raised about the value of the project. Appendix 3 provides a regional profile of General Santos City and the province of South Cotabato. Appendix 4 reprints the USAID/Philippines' response to this report.

At this time, I would like to acknowledge those who helped to facilitate my work. The USAID staff in Manila

extended its full cooperation and I would like to express my appreciation particularly to Richard Johnson, Dennis Zvinakis, and Michael Kingery. I would also like to extend my gratitude to Philippine government officials on national and local levels, especially Facundo Yeneza, Danilo Zamudio, Nael Cruspero, and Meriam Amerkhan. A special note of thanks is also due to Rene Garrucho of the South Cotabato Foundation, Inc. and to Brother Robert McGovern and the staff of the Business Resource Center, Notre Dame of Dadiangas College. I am also indebted to Robin Broad and John Cavanagh who edited the entire volume and provided valuable suggestions for its revision. Views expressed in the report are solely those of the author; not those of persons associated with the project nor necessarily those of PDF.

Figure 1-A. Persons Interviewed Manila

Richard Johnson, USAID
Dennis Zvinakis, USAID
Charlie Feibel, Louis Berger International
Harvey Van Veldhuizen, Dames & Moore

General Santos City

Michael Kingery, USAID
Meldror Ancla, USAID
Danilo Zamudio, Department of Agriculture
Nael Cruspero, General Santos City Gov't
Meriam Amerkhan, Dep't of Trade and Industry
Edgar Soguilon, Dep't of Trade and Industry
Donald Partridge, Chamber of Commerce
Rodrigo Salangang, Chamber of Commerce
Bro. Robert McGovern, Business Resource Center
Virginia Manalo, Business Resource Center
Carmelo Enriquez, Business Resource Center
Larry Larsen, Morrison Maierle

Polomolok, South Cotabato

Carlos Baldostamon, Mahintana Foundation

Marbel, South Cotabato

Rene Garrucho, South Cotabato Foundation
Dausay Daulog, Maguindanaon Development Foundation

Davao City

Melot Balisalisa, Alternate Forum for Research in Mindanao
Gingging Valles, Alternate Forum for Research in Mindanao

Chapter 2

Review of Major USAID-funded Components

The General Santos Special Development Zone Project seeks to optimize the value of agricultural and marine resources such as cash crops, livestock, poultry and fish that are traded in the city by farmers and fisherfolk. The project also aims to accelerate the agro-industrial development of General Santos City and the province of South Cotabato by encouraging the inflow of private investments in such areas as post-harvest and service facilities. Specifically, the project aims to benefit an estimated 25,000 small fisherfolk around the Sarangani Bay area, as well as an estimated 50,000 small-scale farmers in the province of South Cotabato (see Appendix 1 for a detailed description of the project).

The total estimated cost of the General Santos project is US\$ 213.5 million with US\$ 106.8 million financed by USAID (Table 2-1). The major USAID-funded components are the improvement of roads, the improvement of Makar Wharf, the construction of a new airport at Tambler, and the development of a growth plan. The major non-USAID funded components include the construction of a fish port and the construction of an agro-processing center (Figure 2-1). Feasibility studies have been concluded for all major components and most activities are scheduled to be completed by 1995. What follows are my initial conclusions about the likely impact of each major component.

Improvement of Roads

The road improvement component of the project is financed, in part, by the Rural Infrastructure Fund (RIF). Initially, 395 kilometers of roads in 11 sectors were considered for improvement in South Cotabato. Of this total, 158 kilometers of roads in five sectors were approved for construction as a base proposal. The improvement of an additional 99 kilometers of roads, referred to as additive alternatives, was made subject to the availability of funding. The improvements consist of upgrading gravel/earth roads to all weather paved roads of asphalt concrete.

Road construction began in October 1991 and is expected to be completed in July 1993. The U.S.-based firm, Morrison Knudsen, was contracted to design and construct the roads while the U.S.-based company, Morrison Maierle, was contracted to provide quality assurance. The Department of Public Works and Highways provides counterpart

Government of the Philippine (GOP) funding for road right of ways and resettlement necessitated by the improvements. The roads scheduled for construction in the base proposal are: the 84-kilometer Makar River — Kiamba road; the 20-kilometer Buayan River — Malapatan road; the 10-kilometer Dole Processing Center — Landan road; the 23-kilometer Banga — Kolambog road; and the 21-kilometer Surallah — T'Boli road (Figure 2-1).

The general objective of the proposed road improvements is to facilitate the movement of goods and people in the General Santos City development zone. Road sections and sectors were chosen on the basis of which were likely to generate an internal rate of return (IRR) of more than 15 per cent if upgraded. The benefits included in the IRR computation were vehicle operating cost savings, road maintenance cost savings and passenger time savings. All of the roads included in the base proposal were

Table 2-1. Project Cost by Component

Component	Estimated Cost (in thousands of \$US)	Breakdown of Aid Sources	Timetable
Road Construction	56,600	(USAID* 46,600) (GOP** 10,000)	1990 - 1994
Makar Wharf Feasibility Study	760	(USAID 760)	1990 - 1991
Makar Wharf Improvement	23,600	(USAID 17,700) (GOP 5,900)	1991 - 1995
Tambler Airport Feasibility Study	790	(USAID 790)	1990 - 1991
Tambler Airport Construction	35,600	(USAID 26,700) (GOP 8,900)	1991 - 1995
Growth Plan	5,000	(USAID 5,000)	1992 - 1996
Fish Port Construction	22,000	(Japanese Gov. 22,000)	1992 - 1995
Agro-Processing Center Feasibility Study	2,500	(Singaporean Gov. 2,500)	1990 - 1991
Agro-Processing Center Environmental Analysis	240	(USAID 240)	1991 - 1992
Agro-Processing Center Construction	30,500	(Private Sector 30,500)	1992 - 1995
Telecommunications Installation	3,860	(Italian Gov. 3,860)	1992 - 1994
Additional Road Construction	23,000	(World Bank 23,000)	1992 - 1995
Monitoring & Evaluation	670	(USAID 670)	
Studies	1,000	(USAID 1,000)	
Contingency	7,330	(USAID 7,330)	
Total	213,450	(USAID 106,790) (GOP 24,800) (Other Donors 51,360) (Private Sector 30,500)	

* USAID (United States Agency for International Development)

** GOP (Government of the Philippines)

Source: USAID.

determined to be economically feasible on the above criteria. This was not the case, however, for all of the roads considered as additive alternatives.

Projected Development Benefits

Although not included in the IRR computations, development benefits expected from higher farm-gate prices and increased agricultural production were considered

in the evaluation of the economic feasibility of the project roads. These benefits were assumed to take place as a consequence of lower transportation costs. As expressed in the feasibility study undertaken by Louis Berger International:

The proposed upgrading of rural roads in South Cotabato will promote agricultural development in

the nearby countryside Farm output will increase because farmers will receive higher farmgate prices for their products. With wholesale prices unchanged and lower transportation costs, competition between jeepney drivers and truckers will cause cost savings to be passed on to the farmers (1990: vol. 1, x-5).

USAID also contends that sharp declines in transport costs will result from the road improvements with major benefits accruing to the rural poor. In a 7 June 1990 paper USAID argues:

One major element of the ... program is the upgrading rural roads to facilitate marketing agricultural produce of small farmer-producers. This investment should provide substantial benefits to farmers ... by reducing transport costs for farmers and those dealing with them Increased competition leads to better prices and more support services for farmers. At 30-40 %, the ratio of transport cost to the total cost of goods represents a major expense to the rural poor.

The Louis Berger study attempts to quantify the development benefits arising from the proposed road improvements by computing peso values for estimated rises in farm-gate prices and projected increases in the volume of agricultural production. With improvements completed on the roads in South Cotabato, the study maintains that farm-gate prices for corn will increase by 2.9 per cent; for unhusked rice or palay by 2.7 per cent; for copra by 3.2 per cent; for coffee by 1.3 per cent; for other crops by 2.2 per cent; for livestock by 2.1 per cent; for poultry by 2.0 per cent; and for fish by .6 per cent (Louis Berger International 1990: vol. 1, x-10).

Moving from these estimates, the study argues that higher farm-gate prices will lead to more intensive cropping, improved agricultural technology, and increased input usage. In the years following a road sector improvement, production growth rates are projected to rise and, in the process, establish a larger agricultural base before returning to normal. The expanded base, it is said, will allow producers to continue to benefit from the road improvements even after the initial period of adjustment. Increases for corn, palay and fish are projected to take

place immediately; those for other crops (mainly vegetables), livestock and poultry after two years; and those for coffee and copra after five years (Louis Berger International 1990: vol. 1, x-10).

Based on the projections of the study: corn output after road sector improvement will increase for three years at .6 per cent annually; palay output for three years at .4 per cent annually; coffee output for five years at .2 per cent annually; copra output for four years at .4 per cent annually; output of other crops for three years at .6 per cent annually; livestock output for four years at .4 per cent annually; poultry output for four years at .5 per cent annually; and fish output for five years at .1 per cent annually (Louis Berger International 1990: vol. 1, x-10).

Applying these calculations to base-year production levels for palay, corn, coffee, copra, other crops, livestock, poultry and fish estimated from municipal profiles and provincial agricultural data, the study computes net development benefits by product and by road sector. For example, the total net development benefits for the first year along the Makar — Kiamba road are computed to be P15.4 million, rising every year thereafter to P26.7 million in the twentieth year (Louis Berger International vol. 7, sector 3, x-4). Likewise, the total net development benefits for the first year along the Buayan — Malapatan road are computed to be P10.8 million, rising every year thereafter to P20 million in the twentieth year (Louis Berger International 1990: vol. 7, sector 2, x-4). And the total net development benefits for the first year along the Surallah — T'Boli road are computed to be P25 million, rising every year thereafter to P48.4 million in the twentieth year (Louis Berger International 1990: vol. 7, sector 7, x-4).

While the feasibility study does make an earnest attempt to quantify the development benefits arising from the road improvements, the exercise suffers from some serious defects. First, the basic assumption that lower transport costs translate into higher farm-gate prices and increased agricultural production needs to be tested as a hypothesis rather than accepted as a proven fact. Secondly, the mathematics that inform the percentage increases assigned to farm-gate prices and agricultural production need to be spelled out more clearly as the rates presently appear to be assigned rather arbitrarily. Thirdly, the study needs to discuss at greater length the nature of the production data gathered from municipal profiles and provincial agricultural offices. These data underlie the

base-year estimates for projected volumes of increased production and consequently the net development benefits calculated for road sectors and sections within them.

While raising questions about the assumptions and projections of the feasibility study, this assessment recognizes all too well the difficulty of quantifying benefits arising from rural road improvement projects. Our primary critique focuses less on the study's methodological limitations than on its conventional development perspective. Benefits from rural infrastructure development projects in the Philippines rarely trickle down in an equitable manner since relations that link creditors and debtors, landlords and agricultural laborers, and employers and workers are unequal in the extreme. One would do well to examine carefully the dynamics of agricultural production at the village level before accepting too readily the conclusion of the feasibility study's social soundness analysis that "[i]nfrastructure development will facilitate spread of development benefits to the greatest number of people" (Louis Berger International 1990: vol. 1, vii-8).

Community Visits

As part of this assessment I had an opportunity to visit five village communities along three of the road sectors proposed for improvement. My purpose was to learn more about the agricultural production systems within these communities and to reflect upon the potential impact of the improved roads on the lives of the local farmers. In a very general and preliminary way, I looked to test the assumptions of the feasibility study. While my own findings are subject to further verification, they do provide some insight into the credit, production, and marketing constraints experienced by South Cotabato farmers.

The village communities I visited in the province were San Roque, Malbang, Maasim and Lomuyon, Kiamba along the Makar River — Kiamba road; Tuyan, Malapatan and Ladol, Alabel along the Buayan River — Malapatan road; and Edwards, T'Boli along the Surallah — T'Boli road (Figure 2-2).

San Roque, Malbang, Maasim

San Roque is part of the village of Malbang in the municipality of Maasim. About 80 households live in San Roque, many of them migrants from Cebu and Bohol. While most households rely on farming for their liveli-

hoods, only about 30 own the land they till. The rest work land as tenants or as landless agricultural laborers.

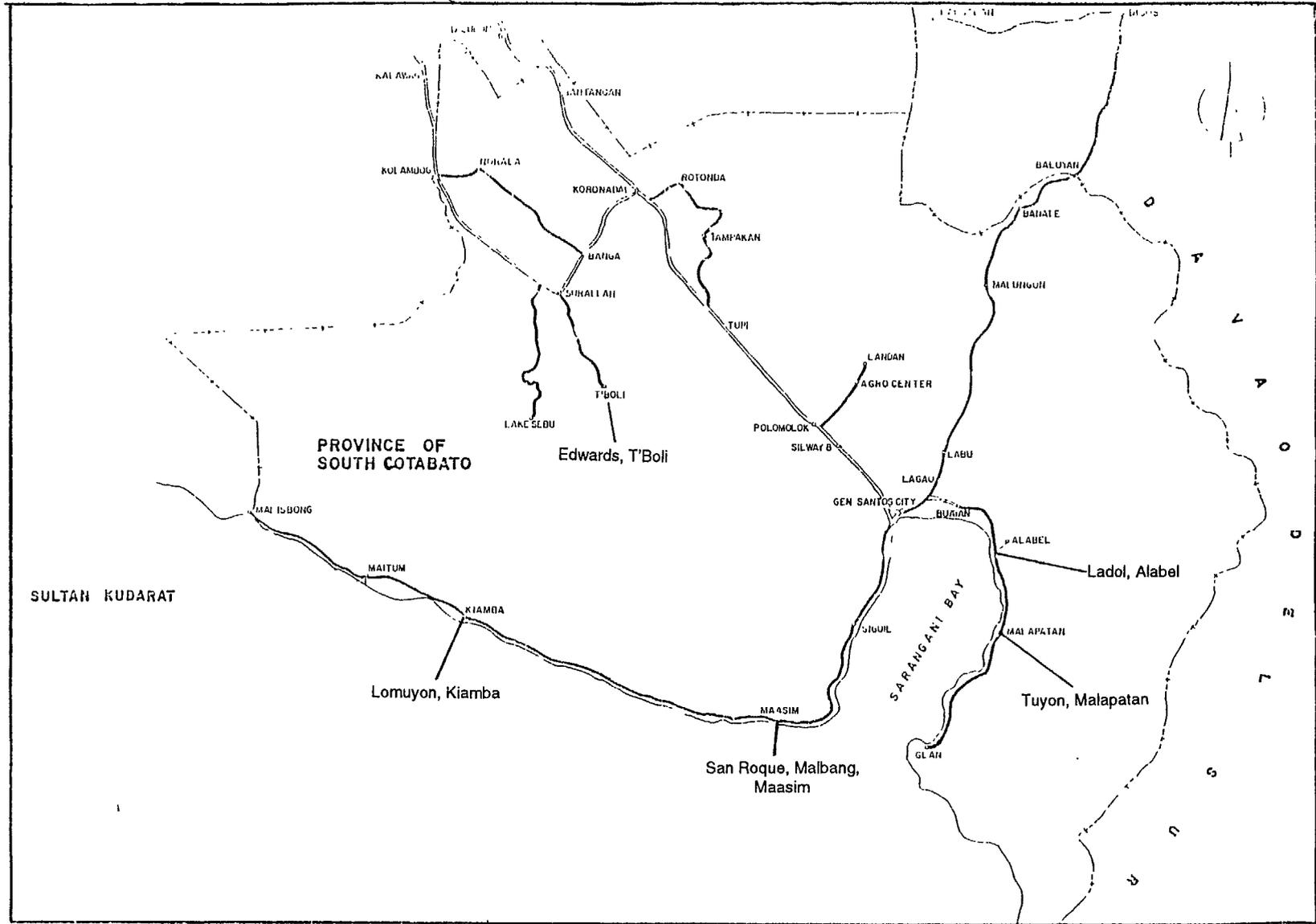
Cotton is the most important cash crop in San Roque. Cotton is planted at the onset of the rainy season in April or May and harvested some five months later. One hectare of rainfed land can produce a good harvest of 1,500 kilos of cotton. At a buying price of P18 per kilo on the open market, a farmer can gross P27,000 per hectare. But farmers are often forced to sell their crops to creditors at reduced farm-gate prices in exchange for production loans received at the start of the season.

To finance the production of one hectare of cotton farmers need chemical inputs costing about P6,000. Expenses for land preparation for one hectare may also cost farmers as much as P4,000. Before San Roque farmers are able to plant a crop, they must first find access to credit. Some farmers in the village have received production loans from the Mindanao Cotton Development Corporation (MCDC) on condition that their harvests are sold to MCDC at farm-gate prices around P14 to P16 per kilo. Others borrow from moneylenders at the rate of 5/6 or 20 per cent per month. This amounts to an interest rate of 100 percent over a five month cropping season. Still others, organized as the San Roque Cotton Farmers Association, receive credit from the Davao Medical School Foundation. "We are trying to build up capital in our own association," one member of this latter group says, "so that we will not have to depend on lenders."

The post-production expenses of cotton farmers include harvesting costs of P1 per kilo or P1,500 per hectare. Tenants who do not cultivate their own land must also share 25 per cent of the gross harvest with landowners. The cost of transporting cotton from Maasim to General Santos City is P.30 per kilo or P15 per sack. This amounts to P450 for a one-hectare, 1,500-kilo cotton crop. If San Roque farmers have a minimum of 500 kilos or 10 sacks, they usually market their cotton themselves in General Santos City. If the farmers have less than 10 sacks, they just sell their cotton in nearby Maasim.

While the improved road will reduce transportation costs from Maasim to General Santos City, it is not certain to increase farm-gate prices for all farmers. Farmers with production loans will still have to sell their crops at prices set by creditors. At the same time, it is not evident that cost savings received by farmers will be sufficient to spur increases in production. For one, almost all arable

Figure 2-2. Community Visit Sites.



Source: USAID.

land in the area is cultivated. For another, farms cultivated by San Roque villagers lack irrigation facilities and therefore cannot produce more than one cotton crop a year. For still another, farmers are already heavily dependent on chemical inputs and increased usage would not produce commensurate benefits. While costs of inputs may be reduced, members of the San Roque Cotton Farmers Association already buy inputs in bulk in General Santos City splitting among them the P40 round-trip fare of one member.

At the time of my visit in March 1992, conversation in San Roque centered more on the extended drought and the lack of irrigation water than on the lack of adequate transport to General Santos City. It appeared that the farmers would benefit more from the installation of irrigation facilities, and accessible and low-cost credit, than they would from the improved road. At the same time, it appeared that landless agricultural workers in the village would benefit little from higher farm-gate prices and increased production until they had better access to land.

San Roque lies along the coast of Sarangani Bay and some residents of the village rely heavily on earnings from fishing during certain months of the year. Fishing is usually done at night by two to three persons in motorized pumpboats with Petromax or Coleman lamps. The catch in the bay is mostly squid and tuna.

Financiers from San Roque provide capital of about P80 per night to supply the gasoline and kerosene needed by one boat. When the boat lands, the financier buys the total catch at P2.00 per kilo lower than the prevailing prices set in General Santos City. For example, squid selling at P30 per kilo in General Santos City is bought at P28, while tuna selling at P49 per kilo in the city is bought for P47. On a given night, a catch per boat may be anywhere from 300 to 500 kilos and can rise as high as 1,000 kilos.

The cost of transporting fish to General Santos City is P25 per basket of about 100 kilos. For a catch of 500 kilos the transportation cost amounts to P125 plus the P40 round-trip fare of the seller. While lower fares will add more to the earnings of the financier, they will not increase the returns to the fishermen under the present financing scheme. At the same time, increased yields from the bay fisheries will come about only when commercial trawling and dynamite fishing are stopped. These practices kill juvenile fish and are rapidly destroying the fishery.

Lomuyon, Kiamba

The village of Lomuyon is located in the municipality of Kiamba. While much of the land is planted to coconut, there are about 100 hectares planted to wetland rice. About 70 hectares of this rice land is irrigated by water from a dam constructed by the government's National Irrigation Authority (NIA) three kilometers away in the upper part of the village. Members of the irrigation association, about 20 in all, will soon begin to make monthly amortization payments to the NIA and come to own the irrigation system collectively.

Rice farmers in Lumuyon are able to harvest five times every two years and normally attain gross yields of from 50 to 70 cavans of palay per hectare. One cavan is equal to about 50 kilos. These harvests are relatively low as farmers reportedly spend only P6,000 to P7,000 per hectare for pre-harvest expenses. But with no agricultural credit forthcoming from the government even these costs are difficult to meet. One farmer maintains that he could produce 90 to 100 cavans per hectare if he could invest P10,000 per hectare on pre-harvest expenses. He currently finances his rice production primarily from the sale of copra.

The buying price of unhusked rice or palay is P5.80 to P6.00 per kilo at the National Food Authority (NFA) warehouse in the nearby municipality of Maitum. But rice farmers in Lomuyon have not yet acquired NFA passbooks needed to sell their palay to the NFA. Traders who come to the village from the town proper of Kiamba buy palay at P4.70 to P5.00 per kilo. If the farmers market their own palay in Kiamba the buying price is P5.20 to P5.30. In General Santos City the buying price of palay is higher at P5.50 per kilo. The cost of transporting palay from Lomuyon to the city is P.25 per kilo. While the improved road will, no doubt, lower transportation costs for palay, it will not solve the problem of agricultural credit primarily responsible for the low yields of rice farmers in the village.

In Lomuyon, coconut farmers attain low yields of 700 kilos of copra per hectare. But these yields can drop further to 400 kilos of copra per hectare without sufficient rain. Traders come to the village and buy copra at P6.50 per kilo. One of them buys for the Agro Tek processing plant in General Santos City. In the town proper of Kiamba the buying price of copra is P6.70 per kilo. In General Santos City the buying price of copra is P7.00

per kilo. The cost of transporting copra from Lomuyon to the city is P.30 per kilo.

Tenants and workers on coconut land receive a one-third share of the harvest while owners receive a two-thirds share. Under present sharing arrangements owners will gain more than tenants and workers from higher farm-gate prices that may arise from the improved road. Here again, increased production of copra will probably have more to do with adequate rainfall than with lower transport costs.

But it seems certain that an improved road from General Santos City to Kiamba will replace jeepneys with buses, increase passenger traffic, and lower the current one-way fare of P50 from General Santos City to Kiamba.

Tuyan, Malapatan

The village of Tuyan is located in the municipality of Malapatan. Most of the 200 households are Maguindanao Muslims who earn their livelihood as farmers. A small percentage are subsistence fisherfolk. About 20 per cent of the farmers in the village own the land they till. The rest work land as tenants or are employed as landless laborers.

Corn, coconut and cotton are major crops in Tuyan. Corn is usually planted after the rains in May or June and harvested four months later. One hectare of land in the village can produce as much as 120 cavans or 6,000 kilos of corn. Some of the corn is milled for home consumption. The rest is sold in General Santos City. The buying price of corn in the city is P3.50 per kilo. The transportation cost of corn from Tuyan to General Santos City is P.12 per kilo. The one-way passenger fare is P12.

One hectare of coconut land in Tuyan was once able to produce 3,000 kilos of copra. Now with the recent drought, a farmer is fortunate to harvest 2,500 kilos of copra on one hectare. Coconut trees in the village are dying and there is no water in the Tuyan river. Copra is sold in General Santos City for about P7.00 a kilo. The transportation costs of copra from Tuyan to the city is P.12 per kilo. Owners of coconut land receive two-thirds of the gross harvest while tenants receive one-third of the gross.

In Tuyan, one hectare of land can produce 1,200 kilos of cotton. While the market price of cotton in the city may reach as high as P18 per kilo, the price of traders who come to the village is P15 per kilo minus a P1 per

kilo charge for trucking. For those who avail of production loans from the Mindanao Cotton Development Corporation (MCDC), the farm-gate price may be set at P12 to P13 per kilo. Owners of land planted to cotton by tenants receive 20 per cent of the gross.

While farmers from Tuyan will, no doubt, benefit from reduced transportation costs to General Santos City, they are more concerned at this point about a dependable supply of irrigation water. As the village captain noted, "We have an elementary and high school in the village. And even though it is not paved, there is a road to General Santos City. What we need is rain and irrigation water here in Tuyan."

Ladol, Alabel

The village of Ladol is part of the municipality of Alabel. More than 100 hectares of the village was once owned by a single landowner and used for grazing cattle. In 1973, the Federation of Free Farmers successfully brought this property under the land reform program of the government. The former workers on the ranch began to cultivate the land to corn. In 1980, the workers-turned-farmers converted the land to paddy and, with the aid of free flowing artesian wells on the property, started to plant high-yielding rice varieties.

On one hectare of rice land in Ladol the farmers can produce as much as 120 cavans or 6,000 kilos of unhusked rice or palay. However, without adequate rainfall, harvests may drop to 50 cavans or even lower. The free flowing wells, by themselves, do not provide adequate irrigation water for three crop seasons a year.

Pre-harvest expenses in rice cultivation include costs of land preparation, planting, fertilizer and pesticides. Post-harvest expenses include costs of harvesting and threshing. If farmers own the land they till, they retain about 60 per cent of the harvest. If farmers pay rent also as tenants, they retain about 40 per cent of the harvest. In the advent of a low harvest, the consequences can be severe. As one rice farmer observed, "If our crop is a failure, we are not able to supply our own rice needs and must buy milled rice from others before the next harvest."

Farmers in Ladol usually receive from P3.50 to P4.00 per kilo for their wet palay in General Santos City. The government's National Food Authority (NFA) buys at a higher price but reportedly does not pay right away. Dried palay can be sold for P5.00 per kilo but there is no drier

in the village. The transportation cost of palay from Ladol to the city is about P.10 per kilo or P5 per cavan. The one-way passenger fare is P5.

While the improved road will reduce transportation cost for the farmers of Ladol, the overall effect on their net income will be minimal. It is difficult to imagine how these savings would induce farmers to increase production. As of now the farmers are already trying to maximize production and identify the lack of irrigation water as their most immediate concern.

The farmers would like the National Irrigation Authority (NIA) to install an irrigation system from the Maribulan river about 10 kilometers away to the rice fields of the village. At present the river is the source of fresh water for the 300 hectare joint venture prawn farm between the Alcantara group and Dole Philippines in Maribulan, Alabel. The farmers joke among themselves that only those with political power can hope to benefit from the use of such resources. In Ladol itself, about 40 hectares of coconut land along the coast has just been bulldozed to make way for a prawn farm. The free flowing water in the village used to irrigate the rice fields will be tapped to supply fresh water to this prawn farm.

Edwards, T'Boli

The village of Edwards is located in the municipality of T'Boli. It was reportedly named for Datu Piang T'Boli who took the adopted name of Edwards from a U.S. Army captain. There are about 300 households in the village. Visayan and Ilocano migrants reside primarily in the lowlands while the indigenous T'Boli live mostly in the uplands. In the lowland areas the major crops are corn and coconut.

In Edwards, farmers are normally able to harvest corn three times a year although some have not planted in the last crop season due to the drought. Some farmers have also tried to plant Cargill hybrid yellow corn but failed to achieve good harvests on the sandy soil of their farms. With non-hybrid seeds farmers are able to produce 40 cavans or 200 kilos of shelled corn per hectare. Pre-harvest expenses include plowing (P450 per hectare), harrowing (P150 per hectare), planting (P160 per hectare), fertilizer application i.e., side dressing (P270 per hectare labor cost plus P960 input cost), weeding (P200 per hectare), and fertilizer application i.e., top dressing (P270 labor cost plus P1,280 input cost). Post-harvest expenses include costs of harvesting (1/12 share to the harvesters) and threshing.

The buying price of shelled corn is P4.90 per kilo in General Santos City but this drops sharply at peak months of the year. The cost of transporting corn from Edwards to General Santos City is P.25 per kilo and one farmer who harvests 200 cavans or 1,000 kilos on his five hectare farm markets his entire crop in one trip to the city. "The biggest difficulty for corn farmers," he says, "is not the condition of the road but the control of the buying price by the Chinese traders in General Santos City. We have to sell our harvest in order to buy inputs for the next crop season." In the village, farmers may also sell their corn to traders at P4.50 per kilo with no charge for trucking.

If farmers borrow from traders to finance their crops, they must pay interest at the harvest e.g. a P320 bag of fertilizer is repaid at P400 per bag; money is repaid at 10 per cent interest per month. They must also sell their crops to the traders at reduced rates; deducting a P.15 per kilo overall charge to the crop and another P.25 per kilo charge for trucking fees. Instead of receiving P4.50 per kilo from the traders, the farmers receive instead only P4.10 per kilo for their corn. For farmers dependent on credit from traders, gains from lower transport costs will mean little.

Insights Gained from the Community Visits

While far from exhaustive, the community visits do provide enough insight into the potential impact of the road improvement project to offer some initial conclusions. For example:

1.) The road improvements will do little to stimulate increased agricultural production. Small producers living along the roads are already able to transport their crops to General Santos City at relatively low costs. Current costs of transportation to the city comprise from two to six per cent of the buying price of farm products; much less than the 30 to 40 per cent suggested by USAID. Incremental savings on transportation costs are unlikely to generate substantial new investments in production. Furthermore, almost all arable land in the area is under cultivation and large amounts of agricultural inputs are already in use (see Appendix 3 for a detailed discussion of agricultural production in South Cotabato).

2.) The road improvements will benefit creditors more than small farmers and fisherfolk. Small producers are

often dependent on moneylenders and traders for credit for pre-harvest or operational expenses. Money or inputs are usually extended on condition that the rights to the crop or the catch are granted exclusively to the creditor. Benefits accruing to creditors from reduced transportation costs and higher farm-gate prices will not necessarily be passed on to small producers.

3.) The road improvements will benefit landlords and tenants more than agricultural workers. Owners of coconut land normally receive a two-thirds share of the harvest and therefore have more to gain from higher farm-gate prices on copra than do tenants or workers. Tenants on rice, corn and cotton land receive higher shares than owners although the wages paid to workers remain about the same as those on other crops. Landowner and tenant gains from higher farm-gate prices will not necessarily mean higher wages for the large population of agricultural workers who comprise the bulk of the rural poor.

4.) The road improvements will not enable small farmers to overcome recurrent problems of low-cost credit and the lack of post-harvest facilities. Solutions to these perennial difficulties require programs that are designed and implemented with the full participation of small farmer organizations and directed specifically to their needs.

5.) The provision of an improved and reliable water supply through accelerated reforestation and the installation of irrigation facilities have greater potential to benefit farmers in the area than the improvement of roads. Heavily deforested in recent decades, South Cotabato has suffered successive droughts over the past few years and this has resulted in severe crop failures and entire crop seasons lost to cultivation. According to the Philippine Department of Agriculture, South Cotabato suffered corn losses alone of 68,317 metric tons valued at P307 million from October 1991 to March 1992 on account of drought (*The Philippine Star*, 18 March 1992) (see Appendix 3 for further information on forest land and deforestation in South Cotabato).

6.) The road improvements will benefit bus owners and passengers more than agricultural producers. The all-weather paved roads will enable bus companies to open up new lines on roads previously limited to jeeps and

trucks. The improvements will also reduce passenger fares and encourage more frequent travel along these routes.

The Controversial Surallah–Lake Sebu and Surallah–T’Boli Road Improvements

In determining the feasibility of specific sectors, it became apparent quite early in the project that the Surallah — Lake Sebu and the Surallah — T’Boli roads were the most environmentally sensitive and politically controversial (see Appendix 2 for a discussion of some of the early concerns raised about the value of the project).

The Surallah–Lake Sebu Road

In Lake Sebu, the Catholic Church-run Santa Cruz Mission voiced its concern that the Surallah — Lake Sebu road improvement might have adverse consequences on the ancestral domain of the indigenous T’Boli community. In Washington D.C., support groups expressed similar sentiments before congressional subcommittees. To its credit, USAID responded to these concerns and required a social and economic assessment of the road sector to be undertaken immediately as part of the overall feasibility study.

And yet, the authors of the social soundness analysis of the final report seemed to dismiss such concerns. They reacted strongly to those opposing the road improvement referring to them as “a regressive force, despite their benevolent motivation” (Louis Berger International 1990: vol. 3, sector 6, vii-1). The authors of the social soundness analysis reported virtually no opposition to the road from the tribal representatives interviewed and concluded that the construction of the road was highly feasible and desirable (Louis Berger International 1990: vol. 3, sector 6, vii-7).

On the other hand, the authors of the environmental analysis of the final report were more circumspect in their assessment. These authors observed:

The T’Boli people in Lake Sebu, while eager for the opportunities that an improved road could bring, are vulnerable to further encroachment of their lands traditional in-migration from lowland areas could increase and negate any benefits accrued if further encroachment on tribal lands or degradation of upland areas occur (Louis Berger International 1990: vol. 3, sector 6, vi-11).

Research undertaken by the Philippine Department of Agriculture and the Netherlands government supported this more sober appraisal. The study indicated that in 10 of 17 Lake Sebu villages studied lowland migrants composed only 40 per cent of the population but utilized 80 per cent of the land resources (Louis Berger International 1990: vol. 3, sector 6, vii-3).

In the end, USAID decided not to pursue the improvement of the Surallah — Lake Sebu road. The concerns expressed by citizens' groups both in the Philippines and in Washington, D.C. were largely responsible for this. At the same time, the road sector, with an internal rate of return of 12.7 per cent, was determined not to be economically feasible.

The Surallah-T'Boli Road

The misgivings about improving the Surallah — T'Boli road were similar to those raised about upgrading the Surallah — Lake Sebu road. An improved road into the municipality of T'Boli was likely to exacerbate the influx of lowland groups into the area; encouraging further encroachment on ancestral lands and the degradation of forested areas. In T'Boli, in-migration had already reached critical proportions. Since gold had been discovered in the municipality in June 1989, 40,000 small-scale miners had moved into the area.

While recognizing the effects of the gold mining operations in the area, the feasibility study and those directly involved in the project argue that the present condition of the road has not been a restraining factor to the in-migration that has already taken place (Louis Berger International 1990: vol. 3, sector 7, vii-2). From this perspective, correlations between the road improvement and the gold rush are unintended and inconsequential.

This view notwithstanding, it is disturbing to find elsewhere in the feasibility study indications which link the rationale of the road improvement directly to the support of the mining activities. At one point the study declares:

The objective of the road project is to give the T'Boli economy access to better markets for selling their produce, and reduce the cost of transportation of commodities as well as make provision for the significant traffic which is being generated as a result of the gold mining in the Municipality (Louis Berger International 1990: vol. 3, sector 7, vi-1).

At another point the feasibility study argues:

Gold mining and exploration has dominated economic activity in T'Boli since June 1989 Several ore-processing plants using rod-mills are operating in the T'Boli township ... should gold mining expand, and joint ventures be established with commercial mining companies, traffic is likely to increase considerably on [the Surallah — T'Boli road] providing further justification for its improvement (Louis Berger International 1990: vol. 3, sector 7, ii-5).

If the Surallah — T'boli road will be improved to promote the mining activities in the municipality, the road improvement project must be stopped. There is sufficient evidence documented already detailing the adverse environmental and social consequences of the mining operations. Environmentalists are alarmed at the extent of environmental damage that has occurred at the mining site in Kematu about five kilometers from the town proper. According to the research of a Filipino soil geomorphologist who serves as the executive director of the non-government Center for Environmental Concerns, irreparable ecological damage has been done due to the indiscriminate tunneling and cutting of slopes. Aside from the damage to Kematu's landform, gold mining has brought about deforestation and siltation; and gold processing, the contamination of rivers and creeks with mercury and cyanide (Lozano 1991: 10).

In addition, a Filipina anthropologist from the University of the Philippines at Los Banos and an Australian cultural ecologist from the University of Queensland maintain that mining in the area has disrupted the T'Bolis traditional social life. They report that as a result of the mining, the T'Bolis have lost control of resources on which their lives depend. (Lozano 1991: 14).

In the municipality of T'Boli, the Tuan family controls almost all the agencies that regulate the mining operations. Mai Tuan is the mayor of T'Boli. His brother, Fludi Tuan, heads the Tribal Mining Development Assistance, Inc. Another brother, Dad Tuan, heads the T'Boli Service Center and is the official representative of the Office of Southern Cultural Communities. A third brother, Yani Tuan, is president of the T'Boli Integrated Gold Buyers Association, Inc. (Lozano 1990: 13). The Tuan brothers

benefit personally from the mining operations and support the USAID-funded improvement of the road from Surallah to T'Boli.

With an internal rate of return of 19.8 per cent, the

improvement of the Surallah — T'Boli road was determined to be economically feasible and is scheduled for construction as part of the base proposal.

Improvement of Makar Wharf

Makar Wharf is the public port of General Santos City located three kilometers southwest of the town proper on Sarangani Bay. The present wharf has a docking length of 561 meters and can accommodate about seven vessels. The first 261 meters were built in the period between 1954 and 1970 and an additional 300 meter extension was constructed in 1978. The current project intends to extend the wharf by another 150 meters.

In the 1970s, total traffic at the wharf increased rapidly rising from 240,000 tons in 1970 to 614,000 tons by 1980. In the 1980s, growth was slower with total traffic rising only to 845,000 tons by 1990. A total 91 per cent of the cargo handled at Makar in 1990 was domestic and 66 per cent of that was outbound. Corn and animal feeds comprised a large measure of the outbound cargo together with copra, general cargo, fruits and vegetables, live animals, rice, and fish and fish preparations (Table 2-2). Containerized traffic began in the 1970s, and in 1990 accounted for 48 per cent of the total traffic.

Louis Berger International, the consultant who conducted the feasibility study for the improvement of the Makar Wharf, projects that future traffic at the port will grow to a peak of about 1.5 million tons near the year 2005, then experience a slight and temporary decline as corn, the largest outbound cargo, reaches the limits of its production. By the years 2005 to 2010, the study expects 73 per cent of Makar's cargo to be shipped in containers (Louis Berger International 1991a: xv).

To effectively handle the projected throughput increases at Makar Wharf, the feasibility study recommends the implementation of a two-phase development strategy. Phase I involves improvements to port management and operations, some repairs to the existing wharf, construction of a container storage area within the existing port, and installation of equipment and navigational aids. Phase

II involves more extensive port expansion to the northwest including a wharf extension of 150 meters, a fill area to accommodate new container and livestock terminals, dredging along the wharf extension to a water depth of 15 meters, construction of a livestock terminal with waste treatment facilities, and an additional access road to the port (Louis Berger International 1991b: xvii).

The feasibility study points out that the port is presently not congested as indicated by the relatively low waiting time of ships. Currently, Makar Wharf is capable of handling the cargoes that shippers and receivers wish to trade. However, Louis Berger International argues that by 1995 the port will no longer have the capacity to move cargo between ship and wharf. And so within a few years serious congestion will affect the capability of the port to serve the region. The study maintains that the implementation of the proposed improvements will provide General Santos City and the province of South Cotabato with upgraded port service and adequate cargo handling capacity through the year 2010 (Louis Berger International 1991a: xix).

Corporate Development and Its Impact on the Projected Throughput at Makar Wharf

The feasibility study presents a very detailed discussion of the projected throughput at Makar Wharf. By the year 2010, the study's middle-range forecast projects a total cargo volume of 1.3 million tons. While corn shipments decline around the year 2005, most other outbound commodities and total inbound cargo indicate a more uniform upward trend in the period from 1990 to 2010 (Louis Berger International 1991a: 7-71).

Nevertheless, the yearly growth rate projected for cargo shipped through Makar Wharf between 1990 and 2010 is less than what occurred between 1970 and 1980. This is partly explained by the competition posed by four

**Table 2-2. Cargoes Handled at the Port of General Santos
Domestic and Foreign Trade, 1990 (in metric tons)**

Commodities	Domestic		Foreign	
	In	Out	In	Out
Live Animals	1,463	31,730	3,443	—
Dairy Products	2,666	15	—	—
Fish & Fish Preparation	7,886	18,723	600	—
Rice	8,459	27,333	—	—
Corn	149	180,960	—	—
Wheat	12,834	24	—	—
Fruits & Vegetables	1,704	31,536	—	11,315
Sugar	10,037	51	—	—
Animal Feeds	12,640	82,495	13,791	—
Bottled Cargo	64,434	1,359	—	—
Tobacco & Manufactures	5,392	1	—	—
Copra	598	58,187	—	—
Logs	8	57	—	—
Lumber	28	564	—	—
Paper & Pulp	2,285	4,774	11	—
Textile Fiber	24	4,736	—	—
Fertilizer	17,184	126	40,868	—
Crude Minerals	247	3	—	—
Metal Scrap	123	6,293	—	—
Ref. Petroleum Products	3,585	19	—	—
Mineral Fuels	26	5	—	—
Coconut Oil	1,381	149	—	—
Chemicals	2,140	213	39	—
Plywood & Veneer	221	98	—	—
Textile & Garment	243	73	—	—
Cement	2,099	5	—	—
Iron & Steel	10,344	375	427	—
Manufactures of Metal	18,542	992	787	86
Mach. & Electrical Equipment	5,440	875	—	—
Transport Equipment	1,413	496	—	—
Furniture	589	159	—	—
General Cargo	65,285	55,014	171	1,412
Palm Oil	—	4,875	—	—
Total	259,469	512,281	60,137	12,813

Source: Philippine Ports Authority, Port of General Santos cited in Louis Berger International (1991a: 7-14).

corporate private ports located along Sarangani Bay, less than 20 kilometers south of Makar. One pier is owned by Dole Philippines, an agribusiness corporation known for producing pineapples and bananas; another belongs to Caltex Philippines, a large oil company; a third to General Milling Corporation which produces grains and cereals; and a fourth by Agro Tex which processes coconut products.

A large volume of trade passes through these private ports and is likely to grow in the future. The feasibility study notes that even if corn production increases in the South Cotabato hinterland, General Milling or other agribusiness firms may increase the amount transported through private piers. The study also reveals that Agro Tex will soon have the capacity to process the entire copra production of South Cotabato. This will have a general downward effect on the volume of copra shipped out of Makar Wharf. The report also mentions that while 240 thousand tons of canned and fresh pineapples and bananas were exported from General Santos City in 1989, only 41 thousand were shipped out of Makar. The bulk of the volume was transported from the Dole pier (Louis Berger International 1991a: 7-89; 7-53; 7-49).

But while the private piers of large corporations divert potential business from the public port, the corporations also avail of its facilities and benefit from its improvement. For example, most of the fruits and vegetables now shipped through Makar Wharf are "overflow" from the Dole operations and projected increases are related primarily to increased production at Dole. The volume is not insignificant. The feasibility study forecasts the tonnage of fruits and vegetables to rise from the recorded 54,166 in 1990 to 97,830 by the year 2010 (middle-range projection, Louis Berger International 1991a: 7-51).

The fish-canning corporations in General Santos City also transport their products through the public port. The outbound tonnage of canned fish through Makar Wharf in 1990 was 13,023 tons. The feasibility study projects a slight downward trend for outbound shipments of canned fish through the year 2010 reflecting the affects of overfishing in nearby areas (Louis Berger International 1991a:7-43). However, the current design for the fish port in Tambler regrettably makes provision for a purse seiner wharf. This may extend the problem of overfishing to more distant seas and temporarily contribute to a higher volume of fish processed by the local canneries and

shipped across the docks of the Makar Wharf (see Chapter 3 for a discussion of overfishing in the Moro Gulf and adjacent seas and the ecological destruction of purse seiners; see Appendix 3 for a discussion of the fishing industry in South Cotabato).

The establishment of an Agro-Processing Center (APC) at Tambler is also likely to contribute considerably to projected outbound cargoes of processed and frozen meats shipped by corporate entities. Assuming that major cold storage and meat processing facilities are established by 1995, the feasibility study forecasts a volume of 29,109 tons of processed and frozen meats shipped through Makar port by the year 2010 (middle-range projection, Louis Berger International 1991a: 7-38). Conversely, the establishment of meat processing facilities at the APC would contribute to a downward trend in the shipment of live animals.

Noticeably absent from the forecasts of the feasibility study is the impact of the Espina Industrial Estate on the projected composition and volume of cargo shipped through Makar Wharf. The 973 hectare estate property lies adjacent to the Makar Wharf across the national highway (Figure 2-1). The estate will be developed by the private sector, and companies operating within its boundaries will enjoy special tax incentives. Among the companies interested in the development of the estate are the Marubeni Corporation of Japan and the International Landholding Corporation. While several firms have made inquiries about establishing ventures within the estate no corporation has yet to finalize an agreement. A total 200 hectares of land on the estate have been set aside for industrial use with emphasis on production for export (interview, Meriam Amerikan).

Under the model of export-oriented manufacturing promoted by the Espina Estate and found elsewhere in the Philippines' current export-processing zones, raw materials are imported and fabricated into more finished products by low-wage labor for export. There are few, if any, backward or forward linkages to the local economy. The transition of the Makar Wharf from a general cargo terminal into a multipurpose terminal would facilitate the flow of goods in and out of the estate and underwrite an essential component of its infrastructure. Corporate investors in the estate would benefit considerably from the port's improved capacity to accommodate containerized cargo and foreign vessels. The development of the es-

tate and the improvement of Makar Wharf appear inter-related and for that reason it is puzzling to note that the anticipated flow of goods between the wharf and the estate were not considered in the throughput projections of the feasibility study. Indeed, the provincial director of the Department of Trade and Industry maintains that "the Espina Estate will rationalize the projects of the Philippine Assistance Program".

The feasibility study mentions a number of general economic factors, including growth rates of population and income, that are expected to influence the future flow of goods through Makar Wharf. The impact of corporate decision making on the composition and volume of trade shipped through the wharf is one factor that needs to be assessed more critically. Quite possibly, the wharf improvements will end up serving the interests of corporate entities more than the interests of city and provincial residents. One cannot assume that benefits to corporate growth will also benefit small producers and consumers.

At present, large corporations will likely continue to rely primarily on their own port infrastructure with some making use of the public port to accommodate periodic overflows. Smaller corporations expanding or establishing processing operations in the area will depend on Makar Wharf to ship their goods, thereby increasing the volume of packaged products handled at the port relative to bulk crop and livestock cargoes. Companies opening up factories in the Espina Estate will export light manufactured goods and perhaps ultimately shift the balance of Makar export trade away from agricultural and marine products.

Corporate Development and Its Impact on Who Benefits from the Wharf Improvement

The feasibility study makes the point that quantifiable benefits used in economic analysis of port projects are primarily the reduction in the value of ships' waiting time, both for berthing and for loading/unloading once at berth. While the study admits that benefits to shipping lines are not necessarily passed on to the local economy in the form of reduced freight rates, it argues that in the case of Makar Wharf most benefits will remain within the Philippine economy, given that over 91 per cent of traffic is domestic and is served by Philippine shipping lines (Louis Berger International 1991a: 14-7). What the study does not consider is the corporate development of export-ori-

ented manufacturing on the Espina Estate and its impact on future overseas traffic served by foreign shipping lines.

Nonetheless, the study suggests that non-quantifiable benefits arising from Makar's improvement are perhaps even more important than those that can be quantified in monetary terms. Starting from the premise that the expedient flow of goods through Makar port is critical to the growth of the local economy, the study makes the case that all residents of South Cotabato will be direct beneficiaries of the proposed improvements. In the words of the study:

A bottleneck at the port due to insufficient capacity to handle increased future traffic could strangle the economic development of the local economy; thus, the entire consumer or producer surplus from trade could be considered a benefit from the investments made in increasing the capacity of the wharf to handle future trade (Louis Berger International 1991a: 14-1).

This observation made, the feasibility study fails to demonstrate how local economic growth effectively translates into trickle-down benefits at the farm level. While the study traces movements in the increased production that is projected to pass through Makar Wharf, it does not discuss the role of small producers in relationship to those movements.

For example, the study constructs three forecasts for outbound corn shipments through Makar Wharf from 1990 to 2010. While increases in corn productivity are projected in each forecast, the assumptions underlying the calculations are varied. In the low and middle forecasts, it is assumed that 40 per cent of the land cultivated to corn will produce low yields of from 1 ton per hectare in 1990 to 2 tons per hectare in 2010 while the remaining 60 per cent will produce high yields of from 2.81 tons in 1990 to 5 tons per hectare in 2010. In the high forecast, it is assumed that 40 per cent of the land cultivated to corn will produce low yields of from 1 ton per hectare in 1990 to 2.65 tons per hectare in 2010 while the remaining 60 per cent will produce high yields of from 2.81 tons in 1990 to 6 tons per hectare in 2010 (Louis Berger International 1991a: 7-34).

If the proposed improvements to the Makar Wharf help to facilitate the shipment of this corn, who stands to ben-

efit? Does one assume that increases in productivity will primarily benefit small producers? To do so would be mistaken. Increased yields will be dependent to some extent on increased use of fertilizer, pesticides and other inputs. Corporate agribusiness manufacturers and suppliers will profit immensely as markets for their products open up and farmers come to rely more on inputs. As pre-harvest expenses increase, creditors will also be asked to advance more money and inputs and, in return, will exact a proportionate share of the expected gain. Although the increased use of agricultural inputs may provide more work opportunities for landless laborers, it is unlikely to increase their daily rates of pay. Ultimately, environmental damage resulting from greater use of inputs will undermine productivity.

In the three-forecast calculations of the feasibility study, increased productivity on 60 per cent of the corn land is predicated on the increased use of hybrid yellow corn. This in turn is related to the expansion of multinational firms like Pioneer and Cargill who produce the hybrid corn seed and exercise control over the production process. Under contract growing, subsistence farmers buy the seed from the companies and are required to follow strict procedures in planting and crop care. At the harvest, the company or its agents purchase the hybrid seed corn at predetermined prices from the farmers. The company takes responsibility for transporting, shelling, drying, storing, fumigating, bagging and marketing the seed to wholesalers or retailers (Louis Berger International 1991a: 2-12).

While contract corn farmers may earn from bountiful harvests, they remain dependent on the multinational seed firms for the production of the seeds, the determination of the buying price, and the marketing of the product. Contract growing requires farmers to subcontract their land and their labor to the firms. While they are referred to as "independent growers", they are actually disguised wage laborers of the corporations. Major improvements in corn productivity in South Cotabato will be directly related to increased use of hybrid seeds. Under present conditions, this will mean more profits for multinational seed corporations and their extended control over small producers in contract growing.

While the feasibility study forecasts increases in corn productivity in the years 1990 to 2010, it also projects decreases in total hectareage planted to corn. In the low

forecast, 5,000 hectares per year are assumed to shift out of corn cultivation and into other crops through the year 2000 before stabilizing. In the middle and high forecasts, 2,000 hectares per year are assumed to shift out of corn cultivation and into other crops through the year 1995 before stabilizing. In all three forecasts, outbound movements of corn through Makar Wharf eventually decline as the limits on productivity are reached and competing demands take over (Louis Berger International 1991a: 7-33, 7-34).

The study points out, we think correctly, that substantial improvement in the net income of farmers with very small holdings requires at least a partial shift out of corn and into production of commodities with greater value-added (Louis Berger International 1991a: 7-71, 7-89). Nonetheless, the question arises: what has happened to the 50,000 hectares assumed to have shifted out of corn production in the study's low forecast, or to the 10,000 hectares assumed to have shifted out of corn production in the study's middle and high forecasts?

Does one assume that lands previously cultivated to corn have been successfully converted to specialty crops by small-scale farmers? Does one assume that this transition has paralleled the implementation of agrarian reform and the respect for ancestral domain? Does one assume that this transition has led to a growth in farmer cooperatives and corporations? Does one assume that the government has actively worked with farmers to provide the necessary credit, technical expertise, agricultural inputs and post-harvest facilities to make this transition? Given current trends, there is little basis for such assumptions.

Alternatively, does one assume that agribusiness corporations have enlarged their effective landholdings through a further expansion of contract growing? Does one assume that small-scale farmers have been vertically integrated with multinational corporations through the out-farming of pineapples, asparagus, cut flowers and other "nontraditional" specialty crops? Given current trends, there is more basis for such assumptions.

The feasibility study argues that the vertical integration of production, processing, packaging, and marketing under the control of multinational agribusiness firms enable small producers to benefit from the conversion of corn land into specialty crops. In the words of the USAID consultant:

The Dole pineapple operation is an example of a large scale and highly integrated agribusiness endeavor. Contract farming allows such firms to ensure timely harvests of large quantities of reasonably uniform fruits, which are then purchased at a predetermined price and transported, processed, canned and marketed by the firm. Such vertical integration offers advantages to the farmers, since the firm must guarantee them a relatively high rate of return in order to ensure that they will dedicate their lands to a specific crop and adhere to a demanding set of specifications on production technology (Louis Berger International 1991a: 2-13).

This assessment is not shared by all. The Alternate Forum for Research in Mindanao (AFRIM) based in Davao City maintains that contract farm management and grower agreements allow Dole Philippines to reduce corporate expenses and spread risks by taking advantage of small producers who lack capital to produce their own cash crops. The AFRIM researchers point out that contract agreements last for 10 years and grant absolute control of farm areas to the company. Under farm management contracts, Dole is entitled to develop and cultivate the farm as it sees fit. Under grower contracts, owners agree to sell crops exclusively to Dole. In both agreements, expenses incurred by the company in the improvement of farm areas are charged against the owners' accounts (Alternate Research Center 1990: 4-5).

What can be concluded from the above discussion is that, overall, benefits from the Makar Wharf improvements will go to the more powerful actors in the local economy. Large corporations and creditors will reap the principal benefits. Small producers who generate high value added for corporations but not for their own households and communities cannot be counted among the primary beneficiaries of the wharf improvements.

Environmental Impacts of the Makar Wharf Improvements

The environmental assessment undertaken by Louis Berger International maintains that the Makar Wharf improvements proposed in the feasibility study will have little negative impact on the local physical environment, as compared to the continued operation of the port without the improvements. The increase in cargo handled, it

is argued, will not greatly increase the number of ships, since the improvements also facilitate the use of larger ships, and these may be newer and less prone to problems of leakage of contaminants. Similarly, while greater numbers of animals may be shipped through the port, handling and sanitary conditions will be improved somewhat with the proposed livestock terminal (Louis Berger International 1991a: xvii; 1991b).

The Makar Wharf feasibility study also assesses the area's energy capacity. Despite its exhaustive treatment of environmental concerns, the assessment's support for the development of geothermal power plants on Mount Apo, some 150 miles away, is disturbing. The consultant observes that "the successful operation of all geothermal plants in the country prompted the country's energy planners to include geothermal power plants located on Mount Apo in the Power Development Program in Mindanao" (Louis Berger International 1991a: 5-16). The report goes on to describe how the plan includes the construction in 1993 of two geothermal power plants on Mount Apo with a combined capacity of 40 Megawatts (MW), the construction in 1994 of four new geothermal power plants on Mount Apo with a combined capacity of 80 MW, and the construction in 1999 of a new geothermal power plant on Mount Apo with a capacity of 120 MW (Louis Berger International 1991a: 5-17). The consultant concludes that "the power demand of Makar Wharf will be small even after any proposed expansion, compared with the demand of the industry in the area, hence enough power will be available, if the grid capacity is expanded as planned" (Louis Berger International 1991a: 5-18; see also Louis Berger International 1991b: 1-11).

The Louis Berger Makar Wharf report fails to mention that the Mount Apo project is extremely controversial.* Mount Apo is the country's highest peak and ancestral homeland of over 100,000 indigenous people. It was declared a national park by President Manuel Quezon in 1936 and under Philippine laws is supposed to be protected from commercial exploitation. Still the Philippine

* However, if one refers to the Dames and Moore environmental assessment of the agro-processing center and fish port it states that "[p]lans to develop a geothermal field on Mt. Apo near Davao City have met serious resistance by local residents in the Mt. Apo region" (1991: 110).

National Oil Company pursues exploration of geothermal energy in spite of the destruction to the watershed and rich habitat of plant, animal and human life. In April 1989, 14 tribal leaders signed a sacred blood pact committing nine tribes in southern Mindanao to oppose the project. These peoples are supported in their opposition by some government officials, church leaders, and a broad network of development and environmental non-government organizations (NGOs) in the Philippines and in other countries (Philippine Development Forum *Action Alert*, 22 May 1992).

While the Louis Berger environmental assessment does not consider the impact of Makar Wharf's power requirements on the indigenous people of Mount Apo, it does discuss at great length the consequences of the port's expansion to the northeast on the lives of 112 Badjao Muslim families. The construction of the new pier requires the relocation of this entire community and the consultant, to its credit, devotes considerable attention to this issue.

The resettlement plan, argues the consultant, must improve the community's welfare, not diminish it. It must address the Badjao's needs for better housing and public utilities, greater access to health, education, and social services, and increased income and employment opportunities (Louis Berger International 1991a: 13-4). It must include an information campaign and consultative meetings, compensation and security of tenure, site selection and development, community organizing and development and monitoring the community once it has been reestablished. Above all, it must involve the participation of the Badjao in the very process itself (Louis Berger International 1991a: 13-7 — 13-9).

In March 1992, I visited the Badjao community and talked with a number of residents about the impending

relocation. The people are poor and mostly subsistence fisherfolk. On a good day, a family may catch five kilos of high grade fish and sell it in the city market for cash, partly to buy lower grade fish for home consumption. The round-trip transportation cost from Makar to the city proper is P4 by jeep. "We want to live near the sea and not far from the marketplace," said one resident, expressing the general sentiment of a group I interviewed. Indeed, government officials were negotiating for a relocation site to the south along the bay in barangay Tambler. Still the round-trip transportation cost from Tambler to the city proper is P14 by jeep.

The environmental plan of action of the assessment report recommended that the relocation process of the Badjao community take place between January and August 1992. The city government drew up a relocation plan to meet this proposed time frame but as of March 1992 the Philippine Ports Authority had yet to provide the funds for the purchase of the resettlement site. One city official was concerned that the delay would put undue pressure on the relocation process. He said that there were signals from USAID that it would not sign a contract for the design of the wharf improvements until the Badjaos were relocated.

At the same time, it was not clear why there was a problem with funding for the relocation process. The feasibility study mentions that "Phase II of the project includes in its budget funds for property purchase, electricity, water and sanitation, medical attention and relocation expenses [for the Badjao community]" (Louis Berger International 1991a: xviii). The study later remarks that "the amount of P4.488 million has been included in the cost estimates, to cover the cost of the relocation of the Badjao community" (Louis Berger International 1991a: 9-15).

Construction of an Airport at Tambler

Air transport to General Santos City is currently serviced by an airport at barangay Buayan eight kilometers east of the city proper. The airport is operated by the Air Transportation Office of the Department of Transportation and Communications and categorized as a trunkline in the national system. Philippine Air Lines (PAL) schedules daily commercial flights from Cebu and less frequent flights from Iloilo. The airport's runway, 1,704 meters long and 30 meters wide, is able to accommodate the Fokker F-50 but not larger aircraft like the B-737 or A-300.

In recent years, commercial flight operations at the Buayan airport have risen steadily. From 1985 to 1990, the number of annual single flights increased from 728 to 1,358; the number of yearly commercial passengers from 30,469 to 58,400; and the volume of annual commercial cargo from 155,324 kilograms to 618,142 kilograms. Parallel increases in the total number of flights and passengers left the average number of passengers per flight in these years almost constant at 42. With the passenger capacity of the F-50 Fokker at 54, this represented a 77 per cent passenger load factor. With increases in total cargo volume higher than increases in total number of flights, the average cargo volume per flight rose from 213 kilograms in 1985 to 455 kilograms in 1990. With the cargo capacity of the F-50 Fokker at 800 kilos, this represented a 55 per cent cargo load factor in 1990 (Wilbur Smith Associates 1991: 3-38).

On the basis of the load factors presented above, it would appear that air service at the Buayan airport is capable of meeting current passenger and cargo demand. While 61 per cent of General Santos passengers flying to Cebu continue on to Manila, only 3.26 per cent of passengers flying out of Davao originate from the South Cotabato area (Wilbur Smith Associates 1991: 4-11, 4-12). On the other hand, it is of interest to note that every day an average of 10 tons of sashimi-grade fresh tuna is trucked 150 miles from General Santos to Davao City for shipment by plane directly to Manila for export primarily to Japan. The fact that such a large portion of air cargo demand is handled outside of the city led project proponents to assess the potential for upgrading air service to General Santos.

Wilbur Smith Associates, a U.S.-based consultancy firm contracted by USAID, considered eight alternative schemes for improving air service to General Santos City. Assessing economic, engineering, environmental and social cost benefits, the consultants ranked the alternative schemes in descending order of preference as follows: 1.) construction of a new airport at Tambler; 2.) construction of a new runway at Buayan; 3.) improvement of the existing runway at Buayan, diversion of air traffic to Allah Valley or Davao City; 4.) improvement of the existing runway at Buayan, diversion of air traffic to temporary airport at Apopong/Sinawal; 5.) construction of a new airport at Apopong/Sinawal; 6.) non-construction improvements at Buayan; 7.) improvement of the road to Davao City, non-construction improvements at Buayan; and 8.) no action, i.e. continuation of the same services at Buayan (Wilbur Smith Associates 1991: 7-81).

The Tambler Alternative

The consultant's preference for the Tambler alternative is based on the assumption that the General Santos City Airport needs to be expanded in ways that are accomplished better through the construction of a new airport than through the improvement of the existing one. The short-range plan includes the construction of a runway, 2,000 meters long and 45 meters wide, able to accommodate B-737 aircraft. The long-range plan includes the construction of an extended runway, 2,400 meters long and 45 meters wide, with precision approaches able to accommodate B-767 and A-300 aircraft. These aircraft have the cargo capacity to handle the daily tuna tonnage projected to be air freighted from General Santos City (Wilbur Smith Associates 1991: 7-15).

Wilbur Smith Associates notes that presently only 50 per cent of sashimi-grade tuna sold from fishing boats at General Santos is of a quality acceptable to Japanese markets. Although the consultant notes strong indications that the total tuna catch is diminishing, it expects the volume exported by air to increase due to improved fish handling techniques and storage facilities. In fact, the consultant projects the volume of tuna sashimi exportable by air to increase from 50 per cent of the total catch or 5,940 metric tons (MT) in 1995 to 70 per cent of the

total catch or 7,245 MT by 2010 (Wilbur Smith Associates 1991: 4-15, 4-18).

In discussions with Dole Philippines and other exporters, the consultant learned that if direct cargo service to Manila were available from General Santos City agribusiness corporations would commence and increase production and exportation of fresh products by air including fish other than tuna, prawns, pineapple, mango, papaya, broccoli, asparagus, cut flowers, and citrus (Wilbur Smith Associates 1991: 4-15, 4-17).

On the basis of this information, the consultant projects the air cargo volume of fish other than tuna to increase from 500 MT in 1995 to 1,000 MT in 1997; that of prawns to increase from 500 MT in 1995 to 1,500 MT in 1999; that of pineapple to increase from 100 MT in 1995 to 2,000 MT in 2001; that of mango and papaya to increase from 5 MT in 1995 to 1,500 MT in 2005; that of broccoli to increase from 5 MT in 1995 to 2,000 MT in 2005; that of asparagus to increase from 500 MT in 1995 to 6,000 MT in 2006; that of cut flowers to rise from 500 MT in 1995 to 3,000 MT in 2000; and that of citrus to increase from 275 MT in 1995 to 450 MT in 1999 (Wilbur Smith Associates 1991: 4-18).

Costs and Benefits

Wilbur Smith Associates evaluates the economic costs and benefits of the alternative schemes in four areas. These include: 1.) the local economy serviced by the airport; 2.) the airlines which utilize the airport; 3.) the passengers traveling to and from the airport; and 4.) the airport itself. Values are expressed at constant 1991 pesos at an official foreign exchange rate of US \$1 to P28.

1.) The benefits of the Tambler airport to the local economy are identified as the value of tuna spoilage avoided, the value of tuna bumped-off flights avoided, and the net value-added of increased aquatic and agricultural production. Not included as a benefit is the projected increase of sashimi-tuna exports from 50 to 70 per cent as this increase will also occur under the no action scheme.

The consultant points out that a deterioration of tuna quality occurs on account of land travel from General Santos to Davao City. The value of this spoilage, estimated at P17 per kilo, becomes a benefit to the project once the tuna cargo is air freighted from General Santos City.

The consultant projects the value of this benefit to increase from P99 million in 1995 to P120.7 million by 2010 (Wilbur Smith Associates 1991: 7-70).

The consultant also observes that tuna cargo is often bumped-off flights from Davao to Manila due to inadequate cargo space. The value of this loss is estimated at P1.70 per kilo of the total cargo trucked from General Santos. Once the tuna cargo is air freighted from General Santos City the total value of this loss also becomes a benefit to the project. The consultant projects the value of this benefit to increase from P10.1 million in 1995 to P12.3 million in 2010 (Wilbur Smith Associates 1991: 7-70).

As mentioned above, the consultant notes, too, that producers of fish and agricultural products, notably Dole Philippines, expect to introduce and increase production of exports by air — fish other than tuna, asparagus, cut flowers, pineapple, prawns, mango, papaya and broccoli — as soon as direct air cargo service from General Santos City to Manila becomes available. The consultant projects the net value-added of these products to amount to P36 million in 1995 and to increase to P415.2 million by 2006 (Wilbur Smith Associates 1991: 7-70).

2.) The costs to airlines are identified as aircraft landing fees, aircraft operational charges and aircraft operations costs. The consultant computes the total airline costs of the Tambler airport from 1992 to 2015 at P7 billion or 10 per cent more than the total airline costs of the no action scheme at P6.3 billion over the same time period.

The benefits to airlines are seen as passenger fares and freight charges. The consultant calculates the total airline benefits of the Tambler airport from 1992 to 2015 at P14.1 billion or 31 per cent more than the total airline benefits of the no action scheme at P9.7 billion over the same years (Wilbur Smith Associates 1991: 7-66).

3.) The costs to air passengers are listed as passenger fares, passenger terminal fees, bus and taxi fares, and opportunity cost of time. The consultant computes the total passenger costs of the Tambler airport from 1992 to 2015 at P9 billion or six per cent less than the total passenger costs of the no action scheme at P9.6 billion over the same time period (Wilbur Smith Associates 1991: 7-67).

4.) The costs to airport operation are identified as capital and operations and maintenance costs. The consultant computes the total airport costs of the Tambler airport from 1992 to 2015 at P739 million or 85 per cent more than the total airport costs of the no action scheme at P114.5 million over the same time period.

The benefits to airport operation are noted as passenger terminal fees, aircraft landing fees, aircraft operational charges, and concession rentals. The consultant calculates the total airport benefits of the Tambler airport from 1992 to 2015 at P56.3 million or 85 per cent more than the total airport benefits of the no action scheme at P8.2 million over the same years (Wilbur Smith Associates 1991: 7-62).

Comparing the thus-calculated total economic costs and benefits of the Tambler airport against those of the no action scheme, Wilbur Smith Associates attains a benefit/cost ratio of 4.83 and an internal rate of return (IRR) of 38.3 per cent. With benefits to the local economy dropped from the equation, the benefit/cost ratio falls to 1.3 and the IRR to 17.5 per cent. These measures, argue the consultant, indicate that the airport would be feasible even without benefits accruing to the local economy due to the cost savings and revenue increases accruing to the airlines. Still the airport would not be able to generate sufficient revenue under the current Air Transportation Office of the Department of Transportation and Communications fee structure to cover operational costs and to finance capital expenditures (Wilbur Smith Associates 1991: 7-60, 7-72, 7-77).

Aside from economic cost benefits, Wilbur Smith Associates evaluated the Tambler airport with respect to engineering, environment and social concerns. The consultant reports that although there are several obstructions in the southern approach to the Tambler site, these will not prohibit precision instrument landings. At the same time, the consultant maintains that the construction of the airport involves little or no relocation, community disruption, significant noise generation, livelihood loss or impacts to terrestrial or marine biological resources (Wilbur Smith Associates 1991: 7-26, 7-80).

Further Assessment of Benefits

Overall the economic benefits projected to accrue from the construction of the Tambler airport appear to be ar-

bitrarily set and somewhat inflated. While projected increases in air cargo volume of fish, prawns, vegetables, flowers and fruits are correctly labeled as estimates, there is very little discussion of the mathematics that inform the variance in figures assigned to each crop over the 20-year life of the project. There is also little effort to relate estimates of increased production to changes envisioned in land tenure arrangements and production processes and their consequences for small producers.

In regard to high figures, the feasibility study estimates the volume of fresh tuna exported from General Santos to average 15.8 tons per day (Wilbur Smith Associates 1991: 4-15). In comparison, the presidents of the General Santos Fishermens Association and the Sashimi Shippers Association estimate the volume of sashimi-grade tuna exported from General Santos to average about 10 tons per day (letter of Chamber of Commerce President Donald Partridge to Air Transportation Office Director Gerado Protacio, 15 February 1992). The estimate of the feasibility study for tuna value lost in spoilage and bumps-offs when shipped through Davao also appears high at P18.70 per kilo. As reported in the study itself, an experiment in direct charter flying of fresh tuna from General Santos to Manila was discontinued because the additional air freight cost amounted to P14 per kilo — indicating that this was more, not less, than the projected loss through Davao (Wilbur Smith Associates 1991: 3-40).

Our major critique of the feasibility study, however, centers not on its methodological limitations but on its bias towards corporate traders and producers. Based on the economic analysis of the Wilbur Smith feasibility study, the local economy of General Santos City and South Cotabato is reported to have the greatest potential to benefit from the construction of the Tambler airport. Upon closer scrutiny, however, it becomes evident that the actual beneficiaries of the new airport are not sectors in the local economy like small fisherfolk and farmers but tuna exporters and global agribusiness corporations like Dole Philippines.

The primary recipients from diminished tuna spoilage and flight bump-offs that a new airport would bring are exporters of fresh tuna. Based on research of the Business Resource Center of Notre Dame Dadiangas College, these corporations numbered 19 in January 1991 and included Dole Philippines. Wilbur Smith Associates (1991:

7-85) projects that the "annual earnings of tuna exporters are expected to increase by P109 million in 1995 and [by] P133 million in 2015. Over this period, the increase in the income of local tuna exporters will total to some P2,560 million."

The question, of course, arises whether any of these earnings will be passed on to local fisherfolk. One cannot assume that increased efficiency in exporting tuna will necessarily result in higher landing prices paid to tuna catchers. Nor can one assume that benefits realized by fishing crews will be shared equitably. As will be seen in Chapter 3, financiers and owners of fishing boats have more to gain from increased prices of fish than do small-scale fishers and fisher laborers. Without strong fisherfolk cooperatives and federations participating directly in the export of fresh tuna, it is difficult to see how small producers will benefit significantly from value-added to tuna exports air freighted from the Tambler airport. In addition, there is reason to be concerned about promoting tuna exports, given that the Moro Gulf and adjacent waters are reported to be over-fished already.

The primary recipients of benefits derived from increased production of agricultural exports that would be shipped by air are agribusiness corporations. Wilbur Smith Associates (1991: 7-85) projects that "with improved air cargo service from General Santos, local producers of selected agricultural crops, such as asparagus, intend to gear their business towards an export oriented, large-scale operation. The increase in annual income from the export of these selected crops is expected to rise from P95 million in 1995 to P759 million by 2015. Over this period, the increase in the income of these producers is estimated to total some P12,700 million."

To increase their export of specialty crops agribusiness corporations like Dole Philippines need to expand their control over arable land and production processes. Contract growing in the province of South Cotabato will undoubtedly increase as subsistence cultivators without capital surrender their farms to company managers and assume the role of subcontractors, i.e. disguised wage workers of the firms. Under conditions of contract growing, small producers will reap unequal benefits relative to those of the corporations. While high value-added will likely be generated through the crops produced, a large percentage of the value-added will accrue to corporate

stockholders rather than to household and community cultivators. It is difficult to see how small producers will share equitably in the benefits derived from incremental production of specialty crops air freighted from the Tambler airport.

In addition to the benefits expected to accrue to tuna exporters and agribusiness corporations, the feasibility study argues that the construction of the Tambler airport will help to attract foreign manufacturing investment. The study points out that lack of direct aviation service to Manila and poor telecommunication facilities have thus far impeded such investment. By contrast, the construction of the new airport will promote the image of General Santos as an area of growth and development and provide a major boost to investment in export processing zones like the Espina Industrial Estate (Wilbur Smith Associates 1991: 4-5, 4-9, 7-69).

Will foreign investment in export-oriented manufacturing contribute to balanced agro-industrial development in General Santos City? Most probably, it will not. Based on World Bank calculations for past years, aggregate value-added for Philippine nontraditional exports amounted to only 25 per cent (Broad and Cavanagh 1988: 88). With raw materials supplied mostly by imports, the earnings of export-oriented manufacturing are limited to the value-added of Philippine labor performing low-wage tasks in industrial zones.

With practically no linkages to the domestic market, export manufacturing sales are also highly contingent on the exigencies of a world market that has been suffering recession for several years. From 1981 to 1985, world output slowed to an average of 2.7 per cent per year and trade to 2.8 per cent. As growth slowed, markets in industrialized countries became more protected with barriers to the international trade of textiles and apparels perhaps the most restrictive. The reduced global demand for light-manufactured exports in a highly competitive market does not auger well for an investment policy based on the assumption of continued aggregate growth in this segment of the economy (Broad and Cavanagh 1988: 89-91).

But even if benefits to the local economy are discounted, offers the consultant, the airport would still be feasible because of the benefits realized by the airlines (Wilbur Smith Associates 1991: 7-69). In other words, the USAID consultant considers it feasible for the United

States to spend US\$ 35.6 million on a project simply to subsidize the support infrastructure and, therefore, the profits of commercial airlines like Philippine Air Lines. But in what sense is it really feasible for the United States to approve a project that in its lifetime projects a net gain to commercial airlines of P3.7 billion but a net loss to the Philippine government of P576.4 million? While measures such as cost/benefit ratios and internal rates of return do provide useful benchmark indicators, economic feasibility must not be confused with sustainable economic development at the community level. In a period where development funds are scarce, projects must also

meet criteria that measure the social and economic transformation of the rural poor.

Perhaps the most disturbing item in the feasibility study noted as a benefit is the contribution of the Tumbler airport to potential military operations. Wilbur Smith Associates (1991: 7-86) assert that "the airlift of military personnel and equipment will make possible quick reaction to threats to public safety in the area." For years, U.S. and Philippine NGOs have insisted that U.S. development assistance to the Philippines must not be linked to military objectives. It is hoped that no hint to the contrary is implied in the above statement.

The Development of a Growth Plan

The development of a growth plan in South Cotabato is advanced by USAID as an innovative concept in donor-assisted projects. The plan seeks to insure that the major infrastructure investments are complemented by appropriate institutional, policy and environmental measures to guarantee that growth is widely shared and that environmentally sound, high economic rates of return are achieved. It is also intends to guide the Government of the Philippines (GOP) and the private sector in future investment decisions (USAID report n.d.).

In November 1991, USAID awarded a five-year contract to Louis Berger International to carry out activities under the growth plan component. The work is to be conducted in two phases. Phase I is scheduled from January to June 1992 and Phase II, from the approval of Phase I to mid-1996. In Phase I, the consultant is to sketch out the nature, parameters, and framework of the growth plan and the projects that will be implemented as part of it. In Phase II, the consultant is to complete primary growth plan development in the first 24 months and provide technical assistance to growth plan projects for the life of the program.

The overall goal of the growth plan is to support private sector-led growth in the General Santos City / South Cotabato area. The output is envisioned as both a document and a process. The process goals, numbered for this presentation, are enumerated in the words of the consultant as follows:

- 1.) Accepting the large number of infrastructure projects being implemented in the area as given; such as roads, improvements to Makar Wharf, a relocated and improved airport, the agro-processing center and fishport, etc.; try to identify the gaps and next round of soft and hard infrastructure that will help to increase and spread benefits of these projects to all strata of society.
- 2.) Identify development strategies that utilize the comparative advantages of the area. Agriculture and Agribusiness are likely to be a primary focus.
- 3.) Develop an economic, structural and developmental planning framework to guide the future development of the area.
- 4.) Identify feasible, implementable, sustainable, balanced and environmentally sound projects with regional impact to meet the needs of all strata of the population.
- 5.) Develop analytical approaches to determine where, when and how development should occur to spread benefits throughout the community and improve the quality of life of its citizens.
- 6.) Develop institutional arrangements that will lead to the effective implementation of the Plan.

7.) Identify mechanisms for private-sector implementation of subprojects, where practical.

8.) The Growth Plan should be a consensus building tool which develops a consensus on goals and future strategies and projects for the region.

9.) The Growth Plan should be an effective trade and investment promotion tool. Growth Plan documents and the Consultant team will be used extensively to promote projects, provide needed background and documentation, and prepare presentations to donors and investors for a future round of hard and soft infrastructure to support projects now being implemented (Louis Berger International 1992: 1-2, 1-3).

The Growth Plan as an Activity in Support of Infrastructure Projects

At first glance, the process goals of the growth plan appear to incorporate sustainable-development principles of participation, ecological sustainability, and equity. The growth plan is envisioned as a "consensus building tool" promoting "environmentally sound projects" designed "to meet the needs of all strata of the population." Returning, however, to the opening premise which accepts the building of roads, wharf, airport, fish port and agro-processing center as given, it becomes clear that the plan anchors and defines itself as an activity in support of the infrastructure projects now under implementation.

Rather than trying to develop a consensus on future strategies for regional projects, the growth plan tries to build consensus on investment models in support of infrastructure projects already initiated. In doing so, the plan exhibits the same bias for corporate-led growth that underlies the other components. For example, the plan looks to expanded contract growing under corporate agribusiness and crop diversification under large landlords to provide the volume of agricultural production required for processing and export operations (Louis Berger International 1992: 2-11). The plan likewise considers Dole Philippines and the tuna canneries around Sarangani Bay as a valuable base for the expansion of the food processing industry (Louis Berger International 1992: 2-14). The plan further encourages joint-venture agreements between commercial mining companies and artisan miners in areas such as the

ancestral domain of the T'Boli (Louis Berger International 1992: 2-15). On the other hand, the plan refers to the adverse effects of the government's land reform program, the Comprehensive Agrarian Reform Program, in terms of the departure of major rubber producers and the virtual collapse of the rubber producing industry (Louis Berger International 1992: 2-13).

Given the nature of the growth plan as a government-to-government initiative emphasizing private-sector support of the infrastructure projects, it is not surprising that the primary participants in the exercise, to date, have been government officials and corporate business leaders. By February 1992, the consultant had completed about forty short surveys, over twenty interviews and three presentations to audiences of from 35 to 60 government officials and private-sector representatives. Presumably, these consultations were conducted in English with urban-based participants.

Of interest to note, development problems that the respondents ranked high included: 1.) the lack of power or energy; 2.) the lack of communication; 3.) the lack of urban and rural roads; 4.) the lack of an adequate airport; and 5.) the lack of water systems (Louis Berger International 1992: xiii). Development projects that the respondents ranked high (as initiatives they would most like to see) included: 1.) steady and reliable power supply; 2.) road network and bridges; 3.) water systems; 4.) improvement of telecommunication system; 5.) total reforestation for ecology and economy; and 6.) modern airport facilities (Louis Berger International 1992: xvi).

Reviewing the results of these initial surveys in a subsequent workshop, one NGO leader was led to ask the staff good-naturedly, "Are you guys kidding?" From this person's experience, the responses clearly evoked the immediate and major concerns of government technocrats and large business managers; not those of small farmers and fisherfolk (interview, Rene Garrucho). While the growth plan laudably seeks "to follow an iterative process with the maximum amount of consultation possible with all interests and social strata" and "to develop the plans of the residents of South Cotabato rather than the plan of the Consultant" (Louis Berger International 1992: ii), it appears, in large measure, to be a product of its own history, i.e. a plan that builds on an undemocratic process, already in place, to determine how major allocations of funds will be made.

The Growth Plan as an Activity in Support of Enterprise Growth Models

In response to low and unevenly distributed family incomes in South Cotabato, the growth plan talks about building "a network of profitable private-sector enterprises that will generate income, employ local labor and serve as models for the future" (Louis Berger International 1992: 2-1). While the plan suggests that participants may be individual entrepreneurs, corporate entities or farmer associations, the success of the approach lies in the development of private-sector enterprise growth models (Louis Berger International 1992: 3-9). But by relying primarily on private-sector enterprise to generate economic growth, the growth plan sidesteps the problem of economic disparity in a region where a few large enterprises have historically perpetuated the poverty of the rural poor.

The Green Forum - Philippines, an environmental coalition of more than 550 citizens' organizations and a Philippine Development Forum partner, maintains that the enterprise-driven strategy looks at the economy from the conventional perspective of different production sectors supplying goods and services. Its central tenet is that the enterprise (the smallest unit that makes up a sector) is the unit of economic analysis, organization, management and accounting, with growth measured in Gross National Product (Green Forum - Philippines 1991: 7).

While the most efficient form of enterprise development may be realized in the enclave or plantation system, the Green Forum argues that ultimately this strat-

egy results in the marginalization and underdevelopment of local communities. The enclave project seeks control over local resources for its own use. It hires managers and supervisors from outside to ensure that requirements are met for the synchronization of agricultural production, processing, packing and shipping. It sets itself apart from the local community and yet it is a dominant entity since its purchasing power represents a large concentration of economic power in the area (Green Forum - Philippines 1991: 8).

It is this domineering presence of enclave enterprises more than anything else, maintains the Green Forum, that produces a debilitating effect on the local community. The success of the enterprise, normally measured in return on capital, does not take into account the social, communal and ecological well-being of the local community. In the words of the Green Forum - Philippines (1991: 9):

When market behaviour is determined by entities organized as profit-seeking product-specialized enterprises, the market fails to arbitrate between on one hand what profits the individual and on the other what amounts to an imperative of social and communal and even ecological optimization.

As an alternative, the Green Forum proposes a strategy based on a model of community-centered development. This model will be discussed further in Chapter 4.

Chapter 3

Review of Major Non-USAID Funded Components

Major non-USAID funded components of the project include the establishment of: 1.) a fish port; and 2.) an agro-processing center (APC). These two infrastructure components are

planned for construction on the same 32-hectare site in barangay Tambler, 12 kilometers south of General Santos City proper on the western shore of Sarangani Bay (Figure 2-1).

Construction of a Fish Port

In 1990, a feasibility study for the fish port and APC was undertaken by Singconsult for the Government of the Philippines (GOP) Department of Agriculture (DA) with funding from the Government of Singapore. In 1990, a second feasibility study and master plan for the fish port alone was undertaken by Pacific Consultants International for the Philippine Department of Public Works and Highways (DPWH) with funding from the Government of Japan. In 1991, this second feasibility study was revised by Pacific Consultants International for implementation by the Philippine Department of Transportation and Communication (DOTC). At present, the design for the fish port is scheduled to follow the master plan prepared for the DOTC while the design for the APC is scheduled to follow the general parameters of the plan prepared by Singconsult for the DA.

In the first design, the fish port was to be constructed under a U.S.-government contract with a USAID grant. In the second design, the fish port was to be constructed under the DPWH with a Japanese loan. In the third and approved design, the fish port is to be constructed under the DOTC with a Japanese loan. The reasons for the changes in donor participation and GOP line agency involvement are not immediately apparent. Once construction is completed, the Philippine Fisheries Development Authority (PFDA) of the DA will manage the project.

Initially, USAID had also proposed to fund the construction of the APC. This alternative has not been pursued. The current plan calls for the APC to be developed by a private corporation.

The Fish Port Master Plan

On 3 December 1991 the Department of the Environment and Natural Resources (DENR) issued an environmental compliance certificate for the construction of the fish port as designed for the DOTC.

The revised master plan of Pacific Consultants International for the DOTC provides for an overall frontage of 680 meters with three separate landing areas. Municipal fishers landing fish for the local market will have a beach frontage of 140 meters plus an interior berthing area of 110 meters. Municipal fishers landing sashimi tuna for export will have a 150 meter frontage. Commercial purse seiner fishers landing tuna for nearby private canneries will be able to berth boats of up to 2,000 gross tonnage at a 340-meter wharf (interview, Danilo Zamudio).

The revised plan for the DOTC provides for a refrigeration building with a 1,500 ton capacity cold storage, a 60 ton per day capacity ice plant, a 30 ton capacity ice storage, a 40 ton per day capacity brine freezer (in case skipjack), a 10 ton per day capacity brine freezer (in case tuna), a five ton per shift, two shifts per day, capacity air

blast freezer (in case skipjack) and four 270 kilogram per shift capacity contact freezers. The design also includes four 40 square meter fishing gear mending sheds, a 10,000 square meter net mending yard and a 6,000 square meter commercial shop area. The fish market area is 4,500 square meters.

Major differences in the three master plans prepared for the fish port are in the berthing spaces provided for deep-sea purse seiners. The Singconsult plan for the DA made provision for six purse seine vessels. The initial Pacific Consultants International master plan for the DPWH made provision for only one purse seiner berth while the revised plan for the DTOC makes provision for three (interview, Danilo Zamudio). The Singconsult design is the only one to include a tuna cannery on site although the refrigeration capacity of the revised Pacific Consultants International plan for the DOTC has been increased to store larger quantities of tuna for the privately-owned canneries.

The Impact of the Fish Port on Fishery Supply

In May 1991, the consultant firm Dames and Moore submitted to USAID a draft environmental assessment of the fish port and APC. While the report had yet to consider the revised master plan of the fish port as prepared for the DOTC, it did consider the master plan prepared by Singconsult for the DA and the master plan prepared by Pacific Consultants International for the DPWH. Reviewing potential impacts of these master plans, Dames and Moore advised against the construction of a purse seiner landing at the fish port.

In making the case against a purse seiner landing, the consultant cited studies made by Floyd and Pauly (1984) and Silvestre (1989). Floyd and Pauly link purse seiner fishing and the use of *payaw* or fish aggregating devices with the catching of small-sized, immature skipjack tuna processed by the canneries. Silvestre reports that tuna stocks in the Moro Gulf and adjacent waters are heavily overfished already, and that no possible sustainable increase in landings can be expected from this particular fishing region. On the basis of these findings and its own research, Dames and Moore (1991: 132, 149) conclude that:

Most of the tuna now landed at the existing canneries in Sarangani Bay are very small juveniles

caught by purse seiners. This harvest is not sustainable, and represents a significant adverse impact on tuna stocks.

A purse seiner landing wharf may lead to the building of more boats, and thus increase fishing effort which leads to more intense overfishing. Therefore, the alternative of not building a purse seiner landing wharf ... is beneficial in the long run.

Given the conclusions of the draft environmental assessment, the decision to construct a fish port in General Santos City with a berthing area sufficient to accommodate three purse seiners is untenable. In an attempt to reconcile the discrepancies between the environmental assessment and the approved design, USAID argues that an "objective of this component ... is to develop the port in such a way that fishing developments will not be dependent on coastal and off-shore resources but instead can tap deep oceanic resources. The aim of the fish port is, therefore, to attract those deep sea commercial fishermen who now land their catch at more distant ports, such as Bangkok, while avoiding the danger of overfishing" (General Santos Special Development Zone Project report, page 12).

Such reasoning has no apparent grounding in reality. Will the managers of the fish port permit only those purse seiners bound for Bangkok to land their fish in General Santos City? This seems highly unlikely. Currently, purse seiners fish in the Sarangani Bay, the Moro Gulf, and the Celebes Sea as well as in more distant seas. Purse seiner fishing in local waters is likely to continue especially with the construction of a fish port able to berth three purse seiners and to refrigerate large quantities of fish. If the fish port is constructed with three purse seiner landings as approved under the current master plan, it will, no doubt, contribute to unsustainable harvest practices that may ultimately destroy the fishery.

The impact of fish port facilities on the supply of fisheries of municipal fishers is somewhat different. At present, municipal fishers land yellow-fin sashimi tuna at Lion's Beach and fish for the local market at the town landing along the waterfront of Dadiangas in the city proper. The Lion's Beach and poblacion landings are currently congested, and inadequate sanitary facilities adversely affect the price of fish as well as give rise to public health con-

cerns. According to the environmental assessment the construction of fish landings for municipal fishers at the Tumbler fish port would improve existing conditions without resulting in a significant depletion of the fisheries. Dames and Moore (1991: 131-132) argue:

Construction of the fish port will improve sanitary conditions for [municipal] fish landings, and therefore should result in a better quality and better price for sashimi. Although this might encourage additional fishing pressure, the fishery is primarily hook-and-line and is probably sustainable, with no significant adverse impact on tuna stocks. The majority of fish now caught in Sarangani Bay and landed in the wet fish market are small individuals, indicating the significant decline in fish stocks as a result of over-fishing. The change in location for fish landings and improvement in sanitary conditions is not expected to have a significant impact on the economic value or intensity of this fishery.

Potential Benefits for Municipal Fishers

With genuine participation in the development and management of the fish port, municipal fishers would apparently stand to benefit. The fish port would help to regulate present practices of sashimi classification and ensure more standardized pricing for all classes of fish. It would also provide municipal fishers with a steady supply of ice not now available from private ice plants owned by commercial fishing operators. The fish port would also encourage improved handling procedures and sanitary conditions resulting in better quality and higher prices for fish.

If the construction of the fish port does indeed result in higher prices for fish, individual shares of the harvest for municipal fishers will increase. However, sharing systems allocate the largest shares, by far, to those who finance the expeditions and own the boats and fishing gear. For example, in one common scheme an ordinary member of the fishing crew or *pasahero* receives only 20 per cent of the value of his individual catch. The remaining 80 per cent of the value of his catch is divided between the financier and operator after expenses have been deducted. In another common scheme, the *pasahero* receives 20 per cent of the value of his individual catch only after a 10 per cent commission for the financier or operator has first been deducted. During lean months,

pasahero rely on financiers and operators for advances in cash or kind (Business Resource Center 1985: 56-59).

Under existing sharing systems, financiers and owners of municipal fishing boats have the most to gain from increased prices of fish. The construction of the fish port may increase the value of individual shares for the *pasahero* but it will not transform the sharing systems that bind them to financiers and owners in dependency relationships. As such, it is unlikely that incremental increases in *pasahero* shares will generate capital sufficient to allow them to purchase their own boats and gear and to finance their own operational expenses.

It is possible that the organization of strong fisherfolk cooperatives and federations could help to promote more equitable sharing of benefits arising from the proposed fish port. Currently, most fisher associations in General Santos City are controlled by owners and operators.

Potential Benefits for Commercial Fishers

The benefit of the proposed fish port to commercial fishers is perhaps best understood in relation to the growth of the local fish cannery industry. In 1989, the Business Resource Center (BRC) reported the operation of two canneries in the city (BRC 1989: 15). In 1991, the BRC noted the operation of four canneries in the city with another to open in 1992 (BRC 1991: 2).

The rise in the number of canneries was paralleled by an increase in commercial fishing operations. In 1989, there were 23 commercial operators in General Santos City with 78 purse seiner mother boats (BRC 1989: 15). By 1991, the number of commercial operators had risen to 45 and the number of purse seiner mother boats to 118 (BRC 1991: 2). Within the same period, the number of ice plants and cold storage facilities in the city had increased from 16 to 25 (BRC 1989: 15; 1991: 2). The rise in commercial fishing also appears to have undermined municipal fishing. BRC reports a decrease in municipal pumpboats from 4,000 in 1989 to 3,000 in 1991 (1989: 15; 1991: 2).

There are cases, too, where municipal fishing operations are indirectly controlled by commercial fishers. The arrangement is similar to contract growing between multinational agribusiness firms and small producers. Commercial fishing corporations finance a number of brokers, who in turn finance the fishing operations of municipal fishers. The fish catch is bought by these brokers and sold to commercial fishing owners or operators for export,

either as frozen fish or processed/canned fish (Alternate Resource Center 1984: 25).

More than the municipal fishers, the commercial operators stand to benefit from the construction of the fish port. The berthing facilities at the wharf will provide more than adequate landing areas for large purse seine vessels. The fish port will also be equipped with refrigeration facilities sufficient to store large quantities of fish. At present, local canneries lack adequate cold storage facilities and therefore are unable to purchase large stocks of fish from the purse seiners. The refrigeration facilities at the fish port will permit the purse seiners to unload large volumes of fish. This will allow commercial vessels from Manila to berth at General Santos City and save turnaround time in traveling to and from distant fishing grounds.

While those involved in commercial fishing stand to benefit from the fish port, not all will benefit equally. The sharing system in commercial fishing also favors financiers and owners over ordinary fishers. From the total gross sales, fees for the broker's commission (10 per cent), labor (3 per cent), landing (1 per cent), service boat (30 per cent) and payaw (25 per cent) are first deducted. What remains is the total gross income and from this, expenses for fuel, maintenance, ice, food etc. are deducted to produce the total net income. With these deductions made prior to sharing, ordinary fishers as well as the financier and owner contribute to the capitalization of the operations.

From the total net income an incentive share of 32 per cent is deducted; 15 per cent of which goes to the financier and owner for depreciation expenses and 17 per cent of which goes to the 40 to 60 man crew to be divided according to rank. The remainder is then divided 50-50 between the financier/owner and the fisher laborers. The collective share of the 40 to 60 fisher laborers is divided

according to rank (Business Resource Center 1985: 59-61). Financiers and owners who provide the operating capital and the fishing boats, gear, and payaw, in effect, receive the lion's share of the catch and stand to gain considerably more than ordinary fishers from improved markets and higher prices for fish.

Potential Benefit for Fish Canneries

Perhaps more than any other entity, the corporately-owned canneries in General Santos City will benefit from the public construction of the fish port. Currently the canneries do not have adequate cold storage facilities. Santa Monica has cold storage facilities for 50 metric tons or half of its daily production capacity. Purefoods has no cold storage facilities. RFM has no cold storage facilities. Celebes has no cold storage facilities but has access to private facilities (interview, Danilo Zamudio). With the cold storage facilities at the fish port able to provide steady supplies of fish, the canneries could conceivably operate for 24 hours a day.

Clearly, the government-built fish port will provide major benefits to the owners of the canneries. The benefits accruing to the workers are as yet unclear. While the work force at the canneries has risen from 900 in 1989 to 5,700 in 1991 (BRC 1989: 15; 1991: 2), a large percentage of these workers are contractuels without long-term job security. In 1991, 94 per cent of the workers at Celebes and 92 per cent of the workers at RFM were contractuels (PFDA 1991). No data were available for Purefoods and Santa Monica although communications with a Purefoods worker pointed to a similar pattern.

Generally, the potential benefits of the public fish port appear to accrue primarily to financiers and owners of municipal and commercial fishing operations rather than to small scale fishers and fisher laborers; and to owners of canneries rather than to cannery workers.

Construction of an Agro-Processing Center

The feasibility study undertaken by Singconsult in 1990 for the Philippine Department of Agriculture (DA) still provides the basic master plan for the construction of the Agro-Processing Center (APC). The design includes facilities for crop processing, livestock processing, and support infrastructure. The complex for crops processing and support infrastructure will be established on the 22 hectare site owned by the Philippine Fisheries Development Authority (PFDA) adjacent to the proposed fish port. The complex for livestock processing will be located across the national highway just north of this site.

Initially, USAID expressed interest in funding the construction of the APC. Subsequently, it was decided to develop the APC through the private sector on the basis of a lease, land development, construction, and operation scheme. The Marubeni Corporation of Japan was the only company to meet the pre-qualification requirements. The DA will, therefore, negotiate with Marubeni for the construction of the infrastructure of the APC on the basis of the proposal it submits. The development of the APC will follow the basic parameters of the Singconsult feasibility study although Marubeni will be responsible for the final layout and design. The Government of the Philippines will reportedly require Marubeni to follow the recommendations identified in the USAID-funded environmental assessment undertaken by Dames and Moore.

At this stage of project development, proponents wishing to establish crop or livestock processing facilities at the APC have yet to be identified. For that reason, it is not yet known which, if any, of the facilities identified in the Singconsult master plan will be built, by whom, or whether in the configuration assumed by Singconsult. Marubeni will first develop plans for basic infrastructure in support of future facilities.

Crop Processing Complex

The crops processing complex is expected to include a plant for processing a variety of fruit and vegetables, and a vegetable oil extraction plant (Dames and Moore 1991: 27).

The fruit and vegetable processing plant is assumed to have three production lines: chip making; dehydration; and canning and bottling. Banana chips in particular would be processed on the chip line using existing local technology at a capacity of five metric tons per day. The fruit dehydration line is assumed to entail two processes: a.) confectionery drying of mango, banana, jackfruit, pineapple, papaya, and calamansi; and b.) flour drying of bananas and potatoes. The assumed capacity of the dehydration line is five metric tons per day. The canning and bottling line would process mango, papaya, and asparagus at a design capacity of five metric tons per day (Dames and Moore 1991: 27).

The vegetable oil extraction plant is assumed to have a design capacity of 50 metric tons per day of edible vegetable oil derived from corn and soya beans, and perhaps other oil-bearing seeds. The extraction plant would operate on a flexible schedule depending on market demand for the product and availability of feedstock. Marketable by-products of the oil extraction plant are assumed to include corn bran, de-oiled corn grain, soybean meal, and fatty acid oil (Dames and Moore 1991: 27).

Livestock Processing Complex

The livestock complex is expected to include two abattoirs (slaughterhouses), meat processing and bone meal plants, a feed mill, and a wastewater treatment plant. Except for the feed mill, the livestock processing facilities will be located offsite probably across the national highway (Dames and Moore 1991: 25).

The Singconsult feasibility study assumes that one of the abattoirs would have the design capacity to process 1,000 hogs per day. The other abattoir would be fully mechanized to process cattle, carabao, and goats, with a design capacity of 100 head of cattle per day and 50-100 goats per day. Both abattoirs would be designed and operated to meet Grade AA export standards (Dames and Moore 1991: 25).

It is assumed that the meat processing plant would be designed to produce a wide variety of meat products in

response to market demand including fresh and frozen carcasses, meat cuts, and processed meats. Facilities would include production of market products such as beef *tapa* or jerky, corned beef, sausages, and meat balls (Dames and Moore 1991: 25).

The meat and bone meal plant would utilize animal waste and byproducts to produce protein meal and fats that would be used in turn in the feed mill to produce livestock feed. The livestock feed mill would be designed for a capacity of 20 metric tons per hour feed production (Dames and Moore 1991: 25, 26)

Support Infrastructure

The main support infrastructure facilities include secondary roads and parking areas, water supply system, waste water treatment, drainage system, power installation and standby power plant, and a telecommunication system. The ancillary facilities include an administration building, dormitory, laboratories, and a commercial complex.

The infrastructure identified in the Singconsult master plan was designed to meet the needs of both the APC and fish port. While the master plan for the fish port has been revised there has been no attempt to coordinate the planning and construction of the infrastructure requirements. It is quite possible that independent sets of infrastructure will be constructed for the two components (Dames and Moore 1991: 28). Separate design and construction programs will result in redundant facilities and a high degree of inefficiency (Dames and Moore 1991: 159).

The Contribution of the APC as a Post-Harvest Facility

The APC crop processing complex is envisioned as a post-harvest facility that will help to minimize product spoilage by processing goods locally. Post-harvest crop losses in South Cotabato are large, due to inadequate storage (high humidity, molding, foreign matter, rodents, insects). Louis Berger International observes that while there are no available studies on the percentage of post-harvest losses for corn crops, casual references in the literature run as high as 30 to 35 per cent (1991a: 7-31).

Post-harvest corn losses occur largely at the farm level where much of the shelling and drying takes place. As with other crops, drying of corn is done simply by spreading the grain on basketball courts and paved roadways to be dried in the sun. Rains may result in moldy

corn. For the most part, farm-level shelling operations are not equipped with blowers, so that corn often enters the marketing chain with high percentages of dirt and moisture, a combination which fosters biological activity and rapid deterioration (Louis Berger International 1991a: 2-11).

In the Makar Wharf feasibility study, Louis Berger International makes the case that the construction of a bulk handling corn facility at the wharf would do little to prevent post-harvest losses that occur at the farm level. The same argument can be applied to the construction of an APC crop processing complex in General Santos City. By the time the corn reaches the city, the damage has already been done. Recognizing that most farmers simply have no place to store their corn, Louis Berger International suggests that the building of small corn cribs on provincial farms would do much to minimize the losses.

Among the low-costing drying strategies that might be more effective is the installation of a small, simple corn crib on each farm. Such a facility would have a crowned cement floor, a roof made of any locally available, inexpensive material, and a bin made of woven wire supported by posts on each corner; the sides of the facility would be open. Corn would be husked and deposited on the cob; natural aeration would dry the corn and help keep it free of mold. Such facilities are rare in the study area since, despite their low cost, they represent a substantial outlay for smallholders who may already be in debt to finance their crops (Louis Berger International 1991a: 14-30).

The more post-harvest crop losses are minimized at the farm level, the more production will reach the marketplace and small producers will benefit from the project. Alternatively, were corn cribs to be made available to small farmers and corn shellers with blowers to be made available to farmer cooperatives, post-harvest spoilage would likely be reduced more dramatically. These would also generate more income for rural producers than would large-scale capital-intensive infrastructure built in the city. The same observation could likewise be made if rice threshers, driers and mills were to be made available to village cooperatives and if copra driers and storage bins were to be made available to small producer associations.

In regard to livestock, weight reduction losses of animals shipped from provincial farms to the city could be improved through stronger marketing cooperatives and federations equipped with reliable and appropriate transport vehicles. In General Santos City the construction of a livestock terminal at Makar Wharf is proposed to reduce in-transit weight loss of live animals by at least one per cent. At a price of US\$ 2.8 million, it appears to be one of the more cost beneficial components of the wharf improvement.

The construction of a livestock terminal at Makar Wharf, however, brings into question the value of the APC livestock processing complex. The livestock terminal appears to make more economic sense as a strategy to reduce weight loss than does the frozen meat option of the livestock processing facilities. In the Makar Wharf feasibility study, Louis Berger International notes (1991a: 7-37):

Currently, all animals shipped out through Makar Wharf are destined for other domestic ports. Meat processing companies have excess capacity in other areas, particularly in the National Capital Region; also, the Philippine tradition is to consume fresh, rather than frozen meat. Aside from custom, the frozen meat option is hindered by the loss of part of the nutritional value of the meat if the customer places it in the freezing compartment of the refrigerator, or if the meat thaws somewhere in the marketing chain and is refrozen. Frozen meat requires a very high degree of agribusiness integration, with reliable (and expensive) refrigerator equipment at every step of the marketing chain from slaughter to final consumer...

While local companies face formidable obstacles processing livestock in General Santos City for the domestic market, foreign corporations such as those in the Marubeni group of companies are positioned to profit immensely from exporting meat products to overseas markets. But who then would gain from the value-added generated locally?

The Contribution of the APC to Increased Value-Added

While South Cotabato is an important agricultural producer, the province exports about 95 per cent of its total

agricultural, forestry, and fisheries goods unprocessed (Dames and Moore 1991:3). A broad objective of the APC is thus to maximize the value-added of crops and livestock exported; and more specifically to provide opportunities for farmers, entrepreneurs, and cooperatives to establish their own facilities within the complex.

While certainly more agricultural processing needs to take place within the province, the contribution of an urban-based capital-intensive project like the APC is questionable. Even before Marubeni emerged as the entity likely to build and manage the APC, development practitioners voiced their concern about flaws in the basic design of the project.

Rene Garrucho, the executive director of the South Cotabato Foundation, Inc. and only NGO representative to sit on the board of the General Santos City Special Development Zone Project, argues that the APC focuses too much on the presumed advantages of urban location and large-scale infrastructure. He favors a more dispersed strategy with community-based value-added activities taking place over a wider area and with more accessible technology. This approach, he argues, will allow farmer organizations to buy into the project and allow small entrepreneurs to complement big business initiatives. It will also help to promote a more equitable sharing of benefits.

The observations of Garrucho are cogent. The fact that more crops and livestock are processed in South Cotabato does not necessarily mean that increases in value-added will be passed on to small producers. Gross provincial revenues may increase but these gains may not find their way into household incomes. Projects designed to increase the value-added of agricultural products must also embody a process that promotes the social and economic empowerment of primary producers.

Will the Marubeni Corporation design and operate the APC in ways that promote the participation and equity sharing of small farmers, cooperatives and entrepreneurs in South Cotabato? Or will it design and operate the facility in ways that encourage the monopolistic control and siphoning off of benefits largely for its own group of companies? Such questions should be answered in detail before Marubeni is awarded the final contract for the project.

For its part, the South Cotabato Foundation, Inc. has a 22-hectare farm in Koronadal that could serve as an alter-

native model for an agro-processing center. Partially funded with assistance from USAID, this farmer-owned cooperative has a feed mill, a coconut mill, a piggery, a poultry, and a fish pond. The farm serves the basic farmer cooperative of the foundation known as SAMATIKO, an organization of 36 upland farmer associations in South

Cotabato. Garrucho contends that several medium-sized agro-processing ventures like this operating throughout the province would better achieve the objectives of the project than one large facility located in General Santos City. These APCs would be community-based, farmer-owned and managed by professionals with business experience.

Chapter 4

Toward an Alternative Vision of U.S. Foreign Aid

General Conclusions

The General Santos Special Development Zone Project proceeds on the premise that infrastructure development is the most important factor in the development equation and that basic installations and facilities have to be in place before the economy can take off. The project assumes that once roads and wharfs are improved, and airports, fish ports and agro-processing centers are built, then production will increase and diversify, value will be added, and benefits will trickle down to small producers. The only concession of the project to social development is a growth plan designed to encourage private-sector support for the huge investment in infrastructure.

Above all else, our assessment raises serious questions about the validity of the assumptions underlying the project's design. Despite the high cost and detailed analysis of the feasibility studies, a convincing case has not been made for the large capital outlay on infrastructure. To be sure, some economic growth will take place as a consequence of the project for it is likely to open up the city and the province to further foreign investment. And some sectors within the local economy such as large purse seiner operators, cannery owners, tuna exporters, and agribusiness producers and processors will benefit from increased value-added. But rather than advance small producer participation, equity sharing and ecological sustainability, the corporate-based export-led bias of this growth is likely to promote increased foreign control over local communities in fragile ecosystems.

Ultimately, the project fails to come to terms with a fundamental social reality: unless infrastructure improvements are specifically designed to meet the needs of the poor, they will primarily favor those who control access to resources, capital, technology and markets. Family incomes in South Cotabato are low because small pro-

ducers and wage-earners are locked in dependent and unequal relationships with owners, creditors, traders, and employers. Steps to increase income and employment opportunities should also empower small producers in relation to dominant economic forces. Unless efforts are made to increase the bargaining power of small farmers and fisherfolk, the primary benefits realized from higher value-added in crop diversification and post-harvest processing will not accrue to them.

Assessing the General Santos Multilateral Aid Initiative against principles laid down in the Covenant on Philippine Development reveals serious failings inherent in the project. As currently designed and implemented, the project does not contribute to a comprehensive economic, social, cultural and political process which aims at the protection and conservation of the environment, the active and meaningful participation of people, and the fair distribution of benefits.

Developing Criteria for an Alternative Vision

The findings of this assessment reveal the potential of U.S. aid to exacerbate inequalities in South Cotabato and provide a poignant example of foreign aid that undermines its avowed purpose. Unfortunately, too much bilateral and multilateral aid to the Philippines falls within this category and contributes more to blocking equitable and sustainable development than it does to realizing it. Not surprisingly, the entire program of foreign development assistance has increasingly been called into question. David C. Korten, an expert on development processes and strategies, reviews case studies from Southeast Asia including the Philippines and concludes that (1990: 12):

International development assistance and the organizations that administer it have not only failed, they

have often been instrumental in making worse the very conditions they were intended to alleviate The dysfunctions of the international development assistance system are beyond fine tuning. The system and its goals must be fundamentally transformed.

In framing competing visions and strategies, Korten offers criteria in the form of questions to assess the extent to which international assistance is a force for social justice, sustainability, and inclusiveness. On balance, he inquires, does it (1990: 5):

- 1.) Increase national economic self-reliance and strengthen national bargaining power in international trade and finance negotiations?
- 2.) Reduce foreign debt service burdens and increase reliance on domestic, in contrast to foreign, capital?
- 3.) Strengthen local control of and ability to manage resources?
- 4.) Strengthen local producers and industry and contribute to the development of competitive local markets responsive to the needs of local people?
- 5.) Develop the domestic human resource base and increase the local command of advanced technologies?
- 6.) Contribute to broadening the base of asset ownership?
- 7.) Strengthen pluralism and the movement toward democratic institutions?

Critics, like Korten, are not alone in their attempts to suggest new directions for foreign aid programs. In response to efforts of the United States House Foreign Af-

fairs Committee to rethink foreign assistance, a broad range of U.S. NGOs contributed to the drafting of the Development Cooperation Act of 1990 (Bread for the World et al 1990).^{*} The draft act has only become more relevant over the past three years.

The Development Cooperation Act of 1990: A Proposal for U.S. Support of Equitable and Sustainable Development

The purpose of the Development Cooperation Act of 1990 was to help U.S. development assistance become more effective in the promotion of a process of long-term development that is equitable, participatory, environmentally sustainable and self-reliant. The draft bill has the following key features:

- 1.) A shift in the priorities of development assistance to build upon activities of the poor. Development assistance supports the expansion of the participation of women, the landless, subsistence producers, migrants and others of the poor majority to: a.) increase their income and access to productive resources and services; b.) protect and advance their rights; c.) influence the decisions that affect their lives; and d.) pursue a strategy of development that is ecologically sound.
- 2.) Consultation with the poor at all stages of the development process. The implementing agency is mandated to take into account the perspectives of the poor in all stages of the design and implementation of assistance policies, programs and projects.
- 3.) Protection and promotion of peoples rights and human health. The provision of development assistance is denied to any government that systematically violates or fails to protect and promote internationally recognized human rights.
- 4.) The inclusion of priority areas in support of long-term development. The four priority areas of assistance

* The Development Cooperation Act of 1990 is the result of a process of drafting and consultation involving representatives of Bread for the World, CARE, Church World Service/Lutheran World Relief, The Development GAP, Friends Committee on National Legislation, InterAction, International Development Conference, National Audubon Society, Natural Resources Defense Council, Overseas Development Council, RESULTS, The Sierra Club, World Resources Institute, World Wildlife Fund and Zero Population Growth.

are: a.) the protection and enhancement of the natural resource base; b.) the improvement of forestry management and the promotion of sustainable agriculture; c.) the enhancement of human welfare; and d.) the integration of national and regional economies.

5.) Reduction of debt and promotion of equitable development. The President may waive payments of interest and principal on loans incurred by those governments of the relatively least developed countries that have consistently used U.S. foreign assistance funds for the improvement of the well-being of their citizens.

6.) The creation of an independent aid agency. A Development Cooperation Administration is established as an independent agency and the principal bilateral aid institution of the U.S. government.

7.) The separation of security assistance from development assistance. The Development Cooperation Administration is designated the principal vehicle for U.S. bilateral development assistance, while the management and application of security supporting assistance remains under the jurisdiction of the State Department.

8.) The creation of a Center for Private and Voluntary cooperation. A Center for Private and Voluntary Cooperation is created within the Development Cooperation Administration to: a.) encourage fuller cooperation with indigenous NGOs in the implementation of U.S. development assistance; b.) provide grants to support the design and implementation of development assistance projects by U.S. NGOs in conjunction with local organizations; c.) develop basic policies, procedures and criteria for programs and projects in support of private and voluntary organizations; d.) direct programs of develop-

ment education to the U.S. public; and e.) assess the effectiveness and impact of such private organizations on development.

9.) Greater accountability to the U.S. public and the Third World poor. The Office of Technology Assessment is designated to monitor and evaluate the effect of U.S. development assistance programs and policies and the progress made by U.S. development assistance in achieving goals delineated in this draft bill.

While it is important in the United States to establish criteria and institutions within government to promote more responsive appropriation and disbursement of foreign aid, it is critical in countries like the Philippines to support models of community-centered development emerging from the experiences of local people's organizations. Complementing the efforts of the Caucus of Development NGO Networks (CODE-NGO) to forge the Covenant on Philippine Development, the Green Forum - Philippines has produced a detailed alternative development economics that promotes community-centered development.* This is but one of the innovative development alternatives that Philippine citizens' groups are articulating in response to the failure of the current Philippine government-sponsored model of export-led growth.

The Philippine Green Forum Model of Community-Centered Development

The Philippine Green Forum model of community-centered development is based on an accounting of community net-worth which considers human settlements and their interrelated ecosystems as holistic units of organization for the production and consumption of goods. Under the concept of community net-worth, local communities have rights over common assets and outsiders

* Members of CODE-NGO include the Association of Foundations (AF), the Council for People's Development (CPD), the Ecumenical Center for Development (ECD), the National Confederation of Cooperatives (NATCCO), the National Council of Churches in the Philippines (NCCP), the National Council of Social Development Foundations (NCSD), the National Secretariat for Social Action (NASSA), the Philippine Business for Social Progress (PBSP), the Partnership of Philippine Support Service Agencies (PHILSA) and the Philippine Partnership for the Development of Human Resources in Rural Areas (PHILDHRRRA).

Among the founding members of the Green Forum are the Haribon Foundation, the Foundation for Community Organization and Management Technology (FCOMT), the Federation of People's Organizations (KASAMA), the Foundation for Educational Evolution and Development (FEED), the Congress for People's Agrarian Reform (CPAR), PHILDHRAA, and the Philippine Rural Reconstruction Movement (PRRM). For an overview of the Philippine citizens' groups that are addressing equitable and sustainable development, see Broad with Cavanagh (1993).

pay a fee to exploit the natural resources owned by the community members. The fee is based on the net present value of the commons which takes into account the discounted value of future earnings and therefore its value to succeeding generations (Green Forum - Philippines 1991: 11-12).

If an industry compensates for a reduction in assets by an increased flow of wages, rents and other income, then it increases community net-worth and makes economic sense. If an industry reduces the value of the community's assets without offsetting the loss, then it decreases community net-worth and accumulates profit as its expense. With the help of technical expertise and computer simulations, local communities are able to participate directly in the development planning process by determining how current resources can best be used to raise their potential net-worth (Green Forum - Philippines 1991: 13-14).

Within this community-centered approach, the ownership of capital is broadly-based and widely-diffused. Capital is accumulated largely at the household level rather than at the enterprise or government level. Monopoly control of the economy by private and state organizations is rejected. Instead, the model promotes a decentralized, diversified and self-reliant economy composed of ecological zones (Green Forum - Philippines 1991: 13, 24-26).

The ecological zone or bio-district approach aims at maximizing household and community incomes through systematically linking small farm operations with processing and marketing facilities. It envisions households on small farms engaged in five to 10 commodity-production systems at one time. The intensity of the operations and their diversity ensures productive use of land and labor and contributes to balanced livelihood strategies. But the shift to small-holder, owner-tilled, intensive and diversified agriculture requires nothing less than the implementation of a comprehensive agrarian reform program. Thus agrarian reform becomes the linchpin program of the entire effort followed by massive investments in agriculture (Green Forum - Philippines 1991: 27-30).

The growth of agriculture raises the productivity of communities to become a source of savings and market for industrial development. Industrial investments are geared to meet internal demand. To maximize the value of Filipino labor, industries will be based upon the country's primary sectors of agriculture, fisheries, forest

management and mining; and production activities that can be accomplished at household and community levels will be encouraged. Networks of small and medium firms will be interrelated through contracts rather than concentrated ownership of productive assets and heavy industries will be built only after a demand for their products is established. As industrialization for internal markets grows, it builds a competitive export base for the country (Green Forum - Philippines 1991: 32-33).

Rethinking Foreign Aid to South Cotabato

Applying the criteria and alternative models outlined above to concrete social and ecological problems of South Cotabato leads us to a totally different appreciation of the role of foreign aid in local development. Contrary to the MAI approach, the goal of aid should not be to promote corporate growth to increase overall economic output but to encourage the use of resources in ways that build community and raise living standards in equitable and ecologically sustainable ways.

In the case of South Cotabato the net flow of wealth out of the province has to be reduced with local communities assuming more control over the management of their resource base. This entails the mobilization of strong people's organizations in the implementation of aquatic and agrarian reform, the access of capital and credit, the utilization of appropriate technology, and the creation of more equitable market relations. In this way wealth generated by small producers from the effective use of resources would remain largely within local communities for the benefit of resident households.

My preliminary interviews with local community residents and NGO leaders in South Cotabato indicate that if the project were to embody a participatory approach a different set of project components would emerge as beneficial to the rural poor. These might focus on communal irrigation and water systems, post-harvest storage and processing facilities at farm and community levels, credit and marketing associations, training in methods of regenerative agriculture, communal reforestation, and preservation of the Sarangani Bay fishery. In a participatory approach components would not be designed and implemented by technocrats but would emerge out of a learning process in which villagers and program personnel shared their knowledge and resources to create a

program which achieved a fit between needs and capacities of the beneficiaries and those of the outsiders who sought to provide the assistance (see Korten 1980: 18). In this case, less but better aid to South Cotabato would do more to achieve the goals of equitable and sustainable development.

As long as U.S.-foreign assistance is driven by strategies that are growth-centered and enterprise-led as opposed to community-centered, equity-led and ecologically sustainable, it will not benefit the majority of the Filipino people, especially those living under conditions of extreme poverty. In fact, the pursuit of these strategies will only exacerbate the debilitating conditions of the Filipino poor and the serious problems that confront their environment.

Postscript

Since the completion of this report in August 1992, there has been considerable discussion among policy makers and citizens' groups in the United States on the role of U.S. foreign aid in the post-cold war era.

In a speech before the Senate on 28 January 1993, Senator Patrick Leahy, Chairperson of the Foreign Operations Subcommittee of the U.S. Senate Appropriations Committee, declared that U.S. foreign aid is in need of fundamental reform and that the Clinton administration and Congress cannot afford to delay the complex task of redefining foreign aid goals and the restructuring of USAID. But he acknowledged that competing interests would make the task difficult and summarized four varying approaches to the issue:

1.) that foreign assistance should focus on promoting American commercial interests overseas;

2.) that foreign aid should be aimed at solving global problems which threaten our national well-being and the future of the planet; such as overpopulation and environmental degradation, the international drug trade, and the AIDs disease;

3.) that foreign aid should have the goal of ending poverty; and that sustainable economic development, political stability, reduced population growth and the preservation of the environment will follow naturally;

4.) that foreign aid should advance concrete U.S. national security interests in specific areas of the world.

Senator Leahy also expressed the sentiment that Congress, and most of the executive branch, had lost confidence in USAID which he called a rudderless agency in search of a mission. In his mind, the agency had fallen so low it was an open question whether USAID should continue to exist, at least in its present form (U.S. Congressional Record, Vol. 139, No. 10, 1993).

Building on their collective insights and experiences, citizens' groups in the United States have been at the forefront of the foreign aid debate offering bold, incisive responses to the current impasse. For instance:

1.) InterAction: The American Council for Voluntary International Action, a coalition of 143 U.S. private and voluntary organizations, recommends that the new administration take a series of organizational steps to revitalize international aid programs. These include reduction in military assistance and efforts to refocus resources toward sustainable development, encompassing poverty alleviation and natural resource preservation.

InterAction maintains that the impetus for sound development must come from the grass roots. The coalition finds that projects initiated, developed, and managed at the community level are among the most viable for the neediest and most vulnerable. As such local control not only promotes sound development, it empowers people to become more active citizens and for governments to become more accountable to citizens' needs.

InterAction does not believe it appropriate for USAID or its successor to focus on export promotion activities. Rather, export promotion programs should be implemented by other executive branch entities, such as the Export-Import Bank. InterAction upholds that sustainable development is the proper export promotion program in poorer countries and therefore the rightful focus of USAID or its successor. The coalition argues that large capital projects should only play a limited role in any U.S. aid program, especially in the poorest countries (InterAction 1993).

2.) The Independent Group on the Future of U.S. Development Cooperation in its 'Reinventing Foreign Aid: White Paper on U.S. Development Cooperation in a New

Democratic Era' also recommends that U.S. development efforts be fundamentally restructured and focused on the goal of sustainable development. The new strategy would include core objectives of investing in people, protecting the earth, and strengthening the institutions of free societies. The authors further propose that USAID be replaced by a Development Coordination Group at the White House level and by a Sustainable Development Cooperation Agency at the Department level (The Independent Group 1992).

3.) Bread for the World, a U.S. Christian citizens' movement of more than 44,000 people, has launched its 1993 Offering of Letters Campaign entitled 'Many Neighbors — One Earth: Transforming Foreign Aid.' The campaign seeks to make the reduction of poverty and hunger in environmentally sound ways the leading purpose of U.S. foreign assistance, and to expand programs that support these goals by shifting funds from military and security aid and from lower priority economic aid. The Bread for the World campaign is grounded in four principles of people-centered development: 1.) development must support people's efforts to meet their basic needs; 2.) development must create opportunities for poor people to increase their incomes; 3.) development must reinforce patterns of living that protect the environment; and 4.) development must promote the full participation of men and women in social and economic decision-making at the local and national level (Selvaggio 1993).

As an integral part of its campaign, Bread for the World will work with members of the administration and the

103rd Congress to write a non-binding resolution asking President Clinton to revise foreign aid policy and funding priorities on the basis of the criteria outlined above. The resolution will hopefully educate members of Congress and gain broad support, influence the Administration's foreign aid recommendations, and influence the content of the foreign aid reauthorization bill that will come before Congress in 1993 or 1994.

As part of a general assessment of U.S. foreign assistance, Bread for the World has identified several aid programs that have achieved some measure of success. Among these are the International Fund for Agricultural Development, the Inter-American Foundation, the African Development Foundation, and Child Survival Activities (see Selvaggio 1993). This reflects a growing consensus among many in the development community that public development foundations are more capable of supporting poverty alleviation and protection of the earth's resources than conventional development assistance agencies. "If the goal of U.S. international assistance policy is indeed to advance the broadly based economic and political participation of all people," argues David C. Korten, "then the public development foundation mechanism should become a centerpiece of U.S. development assistance programming." Korten recommends that such efforts be grounded in the principles of pluralism and decentralization, dividing required funds and roles among a number of independent organizations with funding obtained by a corresponding reduction in the funds allocated to conventional assistance agencies such as USAID and the multilateral banks (1993: 4).

Appendix 1

Project Description

The General Santos Special Development Zone Project is one of five area development efforts intended to achieve the Multilateral Aid Initiative's (MAI) objective of economic growth through employment generation and poverty alleviation.* USAID is the project's major contributor, providing nearly one-half of total project costs through three projects: the Mindanao Development Project (US\$ 75 million), the Rural Infrastructure Fund (RIF) project (US\$ 30 million), and the Philippine Assistance Program Support Project (US\$ 1.79 million).

Project Objectives

The General Santos Special Development Zone Project seeks to optimize the value of agricultural and marine resources — crops, livestock, poultry and fish — that are traded in the city by farmers and fisherfolk. The project also aims to accelerate the agro-industrial development of General Santos City and the province of South Cotabato by encouraging the inflow of private investment in post-harvest and service facilities.

Benefits of the Project

The project looks to benefit an estimated 25,000 small fisherfolk around the Sarangani Bay area, as well as an estimated 50,000 small-scale farmers in the province of South Cotabato. The goods produced by these groups, it is argued, fail to realize their potential value because of the inadequacy of post-harvest facilities, farm-to-market roads, processing centers and marine and air transportation linkages. More competitive prices for goods, it is maintained, will result from lower transport costs while reduced product spoilage and higher value for agricul-

tural products will arise from the provision of post-harvest and support facilities. Specifically, the proposed development activities intend to:

- a. increase the value-added of agricultural products;
- b. minimize product spoilage;
- c. generate additional direct employment for at least 3,000 persons;
- d. provide small fisherfolk and farmers with livelihood opportunities and increase their aggregate annual income by US\$ 13 million;
- e. accelerate the inflow of additional investments by approximately US\$ 85 million; and
- f. increase fish and agricultural export earnings by US\$ 37 million per year.

Major USAID-Funded Components

The major USAID-funded components are: 1.) the improvement of roads; 2.) the improvement of the Makar Wharf; 3.) the construction of a new airport at barangay Tambler; and 4.) the development of a growth plan (Figure 2-1). USAID asserts that project components funded through its office were identified through extensive consultations with the private sector and the Regional Development Council of the area. One thing is certain: considerable amount of money was spent on feasibility studies and environmental assessments. For example, US\$ 790,000 was spent on the feasibility study and environmental assessment for the Tambler Airport and US\$ 760,000 on the feasibility study and environmental assessment for the Makar Wharf improvement (Table 2-1). USAID insists that recommendations of environmental studies will be implemented to insure that the projects are environmentally sound.

* This chapter draws heavily on a USAID Manila report entitled General Santos Special Development Zone Project.

1.) Road Improvement. After consultation with the Government of the Philippines (GOP), USAID, in May 1990, approved the use of US\$ 30 million from the RIF project to finance the initial improvement of roads leading to and from General Santos City. As a base proposal, the RIF and Mindanao Development projects will improve 158 kilometers of roads throughout South Cotabato including the road that passes by the Makar Wharf and the site for the proposed agro-processing center and fish port. The approximate cost of the road improvements is US\$ 56.6 million. USAID will provide US\$ 46.6 million and the GOP, about US\$ 10 million.

2.) Makar Wharf Improvement. USAID plans to invest approximately US\$ 17.7 million to improve the operational efficiency and handling capacity of the existing Makar Wharf. The feasibility study recommends the improvement of the city's public wharf in two phases.

Phase I is composed of three projects. Project I-1 focuses on several managerial and operational improvements. Project I-2 involves the paving of an area to serve as a container storage yard and the installation of an emergency generator. Project I-3 provides for the installation of navigational aids to enable ships to enter Sarangani Bay at night and to berth at the wharf.

Phase II consists of two projects. Project II-1 includes an extension of 150 meters of quay with a 15 meter mean low water depth capable of accommodating large ships. It also involves the construction of another container storage yard and provision for mobile cranes, transtainers, and two additional emergency generators. Project II-2 involves the construction of a livestock terminal designed to load animals more quickly and avoid losses in body weight.

3.) Tambler Airport Construction. To upgrade air service to General Santos City, a USAID-funded feasibility study explored a number of options including the expansion of the present airport at barangay Buayan. The construction of a new airport at barangay Tambler was considered to be the preferred alternative. The proposed airport will accommodate jet aircraft with high payload capacities. The construction of the Tambler Airport is estimated to cost US\$ 35.6 million. USAID will fund US\$ 26.7 million and the GOP, US\$ 8.9 million.

4.) Growth Plan Implementation. The development of the growth plan seeks to insure that the major infrastructure investments are complemented by appropriate institutional, policy and environmental measures. The plan intends to collect economic, financial and environmental data and to periodically analyze and compare this initial data with that taken during and after the construction of the subprojects. In this way, the plan aims to assist USAID, other donors and the GOP in assessing the impact of the various subprojects in the development zone. It also looks to generate information to guide the GOP and the private sector in future investment decisions. In November 1991, USAID awarded a contract to the U.S.-consultancy firm, Louis Berger International, to carry out activities under the growth plan. This activity is expected to cost US\$ 5 million.

Major Non-USAID Funded Components

Major non-USAID funded components of the project include: 1.) the construction of a fish port; 2.) the construction of an agro-processing center; 3.) the improvement of the area's telephone facilities; and 4.) the improvement of water systems, sewerage and backup power (Figure 2-1).

1.) Fish Port Construction. The fish port will be located along the Sarangani Bay on 10 hectares of a 32-hectare site owned by the Philippine Fisheries Development Authority (PFDA). The property is located on the western shore of the bay about 12 kilometers south of the city proper and will also contain the proposed agro-processing center. The beach front of the fish port has been designed for fish landing sites for all manner and sizes of boats, including sashimi tuna fishing boats, municipal fishing boats and commercial deep sea purse seine vessels. Areas near the landing facilities have been designated for fish market halls and for ice plant and cold storage facilities for fish and other marine products. The estimated US\$ 22 million cost of the fish port will be provided from a loan under the Overseas Economic and Cooperation Fund (OECF) of the Government of Japan (17th Yen Credit Package).

2.) Agro-Processing Center Construction. The agro-processing center is envisioned to be an integrated agro-industrial processing and marketing center developed by

the private sector to increase the value-added of agricultural products from South Cotabato. It involves the establishment of three main facilities. The first includes on-site crop and fruit processing, vegetable and corn oil extraction, feed milling, can manufacturing, ice production and cold storage. The second involves off-site livestock processing with two abattoirs or slaughterhouses, meat and bone meal plants, a tannery and a livestock feed mill. The third contains on-site support infrastructure with water supply system, waste water treatment, drainage system, power installation, standby power plant and telecommunications system.

The agro-processing center will be built on 22 hectares of the 32-hectare site owned by the PFDA. The agro-processing center will be offered to the private sector on a lease, land development, construction, and operation scheme. It is estimated to cost US\$ 30.5 million.

3.) Telephone System Installation. This component seeks to provide a better and more efficient telephone system to stimulate business and trading activities not only within General Santos City but also between the city and local and international business centers. The Philippine Department of Transportation and Communications (DOTC) is negotiating a loan for the first phase of the National Telephone Program under the First Italian Protocol Agreement. This program provides for pilot digital telephone system installations and in the pilot area of General Santos City an estimated 1,100 lines will be installed. The telephone improvement component is estimated to cost approximately US\$ 3.9 million and will take the DOTC 24 months to implement.

4.) Water Systems, Sewerage and Backup Power Installation. Although USAID has funded some initial feasibility studies, the financing and construction of other infrastructure projects such as fresh water systems, sewerage, and backup power may be carried out by the Asian Development Bank (ADB). The ADB is currently detailing an Urban Development Loan which includes General Santos City as one of the recipients.

Project Cost

The total estimated cost of implementing the General Santos Special Development Zone Project is US\$ 213.5 million with US\$ 106.8 million financed by USAID. Other foreign donors include the Italian and Japanese Governments and potentially the World Bank and Asian Development Bank. Funding from other foreign donors is presently estimated at US\$ 51.4 million primarily in loans and could increase as specific project activities are identified. The GOP will contribute approximately US\$ 24.8 million. The final design and construction of the agro-processing center will be undertaken by a private-sector consortium at an estimated cost of US\$ 30.5 million (Table 2-1).

Project Implementation

While each project component has a different timetable, most activities are scheduled to be completed by 1995. Feasibility studies have been concluded for all major subprojects, including the improvement of roads, the improvement of the Makar Wharf, the new Tumbler Airport, the agro-processing center and the fish port. The growth plan will continue throughout the life of the project (Table 2-1).

Appendix 2

Early Concerns Raised about the Value of the Project

In a report dated 21 May 1990, Philippine Development Forum (PDF) member, Christina Cobourn of the Columban Fathers Justice and Peace Office, raised several questions about the value of the project for poor rural communities in the province of South Cotabato. Cobourn's inquiry was done in collaboration with PDF member Thomas Fricke and was based on information provided by government and non-government organizations in Mindanao. Among the questions contained in the report were the following:

- 1.) How will the project benefit Filipino small entrepreneurs, businesses, and cooperatives, as opposed to large corporations and multinationals?
- 2.) Does the project have an urban bias?
- 3.) Have the potential investors for either the agro-processing center or the industrial estate been identified? Does USAID know whether the public investment in infrastructure will support production facilities with backward linkages to the provincial agricultural economy?
- 4.) Will agricultural production itself grow sufficiently to meet the needs of the proposed agro-processing facilities?
- 5.) How do project planners envision farmers making the transition from traditional crops to higher value export crops? Are agribusiness owners or small farmers the targeted beneficiaries of this transition?
- 6.) Is there any indication of land speculation in the proposed sites by anyone linked to government officials and Regional Development Council members proposing the project? Who stands to gain from this particular development strategy?
- 7.) Is the supply of energy sufficient to meet the requirements generated by the proposed economic development of the region?
- 8.) Does the project have a direct impact on the poor?
- 9.) What is the project's environmental plan for the region?
- 10.) Is there a role for NGOs in the project?
- 11.) Has USAID directed the team conducting the environmental impact assessments to investigate the potential environmental impacts of the agro-processing facility and the industrial zone, for which the roads are serving as infrastructure support?
- 12.) Is USAID aware of the environmental and development dangers posed by the construction of the Surallah-Lake Sebu and Surallah-T'Boli roads?
- 13.) Will the project encourage the development of prawn farms along the coast despite the harmful environmental effects that result from their operation?
- 14.) Will large agribusiness firms like Dole Philippines benefit from the upgraded road and airport facilities proposed in this project?

On behalf of PDF, Cobourn presented the report to

staffers of the U.S. Senate Appropriations Committee, who, in turn, asked USAID personnel to reply to the concerns raised. The following are excerpts, renumbered for this presentation, from USAID's response dated 7 June 1990:

1.) Although the proposed infrastructure projects are located in and around GSC [General Santos City], these are intended to increase value added predominantly for products of small farmers and fishermen, who total more than 70,000 in the area in and around GSC. A significant number of these are farmers and fishermen whose income levels fall within the poverty threshold, estimated in 1985 to be P2,388 (about \$100) per month. Their present production fails to realize full potential value because of the inadequacy of post-harvest facilities, farm to market roads, processing facilities and marine and air transportation linkages.

2.) The project may appear to be biased toward urban development because, except for the roads, the proposed project sites fall within or are close to GSC [However] GSC is 42% agricultural-based. In addition, the project's potential impact transcends the boundaries of the City. The GOP [Government of the Philippines] has premised the project on the concept of GSC/South Cotabato (SC) becoming a "regional growth center," and projects that the development of the GSC/SC area will spur the economic growth of the entire region, which is primarily agricultural and rural-based.

3.) The development of the industrial estate will be a private venture for which private investors will provide significant funding. Because it is a private endeavor, A.I.D. does not have definite information on the number of potential investors identified but understands that from 6 to 10 investors have already expressed interest. It is anticipated that American, as well as Philippine, companies will be interested in investing in the area.

[B]ackward linkages into the agricultural areas are anticipated for the infrastructure projects under consideration by A.I.D.... The comparative advantage of investments in the GSC/SC area is the ex-

pansion of agricultural production, agro-processing and fisheries development. All of the project components have linkages to agricultural areas outside the City.

4.) A.I.D. believes that the potential exists for increased agricultural production, provided there is a greater market for local agricultural products and provided support services to small farmers are improved or made available A.I.D. already has a number of ongoing projects which focus on agricultural production in the SC area.

5.) A.I.D. anticipates that incipient mutually beneficial contract farming relations between agribusinesses (including large firms) and small farmers, such as that existing between Dole and banana farmers, will continue to grow and will be encouraged through the investment program.

6.) There is no indication of land speculation in the proposed sites. The landowner of the proposed agro-processing site has owned the land for the past fifty years. Negotiations for the GOP's purchase of the land began in May 1989 at a selling price of P65/square meter (less than \$3) and is being finalized at this price, despite the owner's desire to increase the price.

The site for the proposed industrial estate is scrub land with negligible current utilization as grazing land. Because it is located in a rapidly urbanizing area, it is likely to have a higher value if sold as residential or industrial land. The current owners are prepared to make their own substantial investments in its development as an industrial estate.

7.) The adequacy of the existing energy supply has been raised by A.I.D. and is a concern that will be carefully addressed in the "master plan." A.I.D. is assisting the local Rural Electric Cooperative (SOCOTECO) to rehabilitate its distribution system. Additional possible options include the extension of the transmission line from Davao to GSC and the development of two small hydro sites.

8.) The GOP expects the project to have significant

impact on the small fishermen and farmers who constitute the majority of the area's "poor" population. The impact on these people would be in the form of more competitive prices for their goods due to lower transport cost resulting from better transport facilities, minimized spoilage, and optimized value of agricultural resources through the provision of post-harvest and support services facilities.

Also, in addition to anticipated benefits from higher producer prices, increased processing of agricultural and fishery products should generate additional off-farm employment opportunities.

9.) A.I.D. will undertake a comprehensive environmental assessment of the potential impact of the proposed development on the entire GSC/SC region as part of the master plan which will be developed in the immediate future.

10.) NGOs are already heavily involved in a variety of complementary activities funded by A.I.D. and other donors in the area NGO activities supported by A.I.D. include: (a) small business development through credit, technical assistance, and training for small entrepreneurs; (b) marine and coral reef rehabilitation and island development programs for fishermen; (c) low-resource based agriculture, community-based agro-forestry, and reforestation for upland and lowland small farmers, including ethnic minority groups; and (d) institution building at the community level involving farmers' associations, cooperatives, and community organizations A.I.D. anticipates NGO participation in specific project components as they are designed/developed, where such participation is appropriate.

11.) Road EAs [environmental assessments] will look at indirect impacts, the EAs for the agro-processing facility and industrial zone will be handled through the over-all environmental impact assessment of economic growth of the area.

12.) [The Surallah-Lake Sebu and Surallah-T'Boli roads have been included as priorities by local officials. A.I.D. has not made a commitment to finance

all of the roads being proposed. Environmental assessments will be prepared for all roads prior to decisions on A.I.D. funding. A.I.D. will not finance the extension of roads into forested areas. The issue of the impact on the T'Boli lands will be carefully examined. This is a priority issue which is already included in the scope of work of the consultant who is carrying out the studies.

13.) The rapid expansion of prawn farming has already occurred along much of the Sarangani Bay. Major investments have already been made. However, some proposed investments, such as the agro-processing zone, could lead to further expansion. The "master plan" exercise will look at the environmental impact of this phenomenon and recommend ways and means to mitigate potentially adverse consequences of prawn farming such as mangrove destruction.

14.) Dole is the largest firm in the General Santos area. Dole has already made its own infrastructural investments, such as electricity generation, telecommunications, etc. Dole operates its own pier along Sarangani Bay. With the exception of a few kilometers, traffic between the pier and its canning plant in Polomolok is on existing surfaced public road. The exception is a short stretch of heavily congested unpaved road planned for upgrading which passes by the Dole plantation and which would benefit Dole as well as others.

Despite USAID's response to the questions of Cobourn and its repeated effort to explain the rationale for its emphasis on infrastructure development, questions persisted about the agency's approach to the Multilateral Aid Initiative (MAI) in general and to the General Santos City/South Cotabato project in particular. In October 1990, U.S. Senator Patrick Leahy, Chairperson of the Foreign Operations Subcommittee of the U.S. Senate Appropriations Committee, submitted a report which noted the following:

Despite assurances to the contrary, and repeated overtures made by the Committee, the administration appears unwilling, or incapable, of revamping

the way it has traditionally practiced development in the Philippines.

For instance, AID continues:

To emphasize urban development over rural development, thereby perpetuating, and often exacerbating, historic inequities in income distribution;

To invest the overwhelming amount of its available resources in large-scale economic infrastructure projects over social infrastructure programs which directly benefit the poor;

To stress structural adjustment programs over less glamorous, traditional grass-roots development initiatives of proven effectiveness; and

To fail to work aggressively to develop locally owned and managed industries which can contribute to a lessening of import dependence and a reduction in the Philippines external debt.

To fail to emphasize the environmental rehabilitation of degraded lands and the protection of threatened ecosystems, including coastal areas.

The Committee has been assured, repeatedly, by AID officials that its program for the MAI represent[s] a new and creative approach to the development problems in the Philippines. This was how the MAI was originally promoted, and the basis upon which it was accepted by the Committee and its funding recommended. Unfortunately, these promises have not yet been realized (U.S. Senate Report 101-519 1990: 39).

Turning specifically to the General Santos City/South Cotabato project the report observed the following:

As an example of what the Committee believes to be a misplaced priority of the MAI, the Committee wishes to express its concerns about problems with the South Cotabato project in Mindanao. This project involves substantial infrastructure development, including harbor construction, agriculture and fish processing facilities, and paving of roads, specifically the road going from Surallah to Lake Sebu.

The Committee believes the potential for environmental and social damage in this project is great. Funding for all infrastructure elements of the South Cotabato project, including the roads, should be contingent on the completion and analysis of environmental impact assessments, regardless of the possibility that other countries might supply funding for these projects. This funding should also be based on sound economic data showing in what manner and to what extent such projects will directly benefit the rural poor who inhabit that region, particularly marginalized fishermen and farmers. Of particular interest to the Committee is how those people's income is projected to change in the future, as well as their access to basic services such as health care and education (U.S. Senate Report 101-519 1990: 42).

It was in the context of the issues raised in this early debate that the present assessment was initiated. It was hoped that a second visit to the project site together with a review of the feasibility studies and environmental assessments already completed would allow for the discussion to continue in an open and constructive spirit.

Appendix 3

Regional Profile

The province of South Cotabato is located in Mindanao at the southern tip of the Philippine archipelago. It is bounded on the north and west by the province of Sultan Kudarat, on the east by the province of Davao del Sur and on the south by the Celebes Sea. The province is composed of 18 municipalities and the city of General Santos. In 1991, the population of South Cotabato was slightly over one million with 278,000 people residing in General Santos and another 100,000 in the provincial capital of Koronadal also known as Marbel.

Agriculture

South Cotabato has a surface area of 791,078 hectares, about 2.6 per cent of the total surface area of the Philippines. In 1986, the cultivated area of 322,679 was equal to 86 per cent of the 375,208 hectares classified as suitable for cultivation (Business Resource Center 1988: 11). The lack of additional land suitable for agriculture implies that production can only be increased by raising the productivity of crops.

The climatic and soil conditions of South Cotabato are suitable for raising a wide variety of crops (Table A3-A). The most important crops produced are corn, rice, coconut, cotton, and pineapple. In 1989, the province produced 23 per cent of the Philippine's corn, eight per cent of its coconut, four per cent of its coffee, three per cent of its mangoes, and two per cent of its rice and bananas. In the same year, the province also produced 40 per cent of the country's pineapple due to the corporate presence of Dole Philippines Inc., a subsidiary of Castle and Cooke. In some years South Cotabato has also produced a significant part of Philippine cotton, although domestic cotton production accounts for less than 10 per cent of the total used in the local textile industry (Louis Berger International 1991a: 2-2, 2-3).

In 1986, 218,021 hectares of South Cotabato were classified as forest land. Commercial logging, together with shifting agriculture, has denuded a large percentage of these mountainous areas. Soil loss and flooding have become a major problem, with floods causing damage to property, agricultural activity, and infrastructure such as bridges. Reforestation efforts to reverse this trend have been insufficient (Louis Berger International 1991a: 2-2).

South Cotabato livestock production of carabao, cattle, hogs and goats is about two per cent of the Philippine total. Provincial production of chickens is also about two per cent of the country's total and duck production about four per cent (Table A3-B). Meat production from livestock and poultry slaughtered in South Cotabato are low as a large volume of the livestock produced in the province is shipped out as live weight (Louis Berger International 1991a: 2-4, 2-5, 2-6, 9-53).

The majority of South Cotabato farmers whether owners or tenants work 1 to 3 hectares of land; a farm of 7 hectares is considered large in the province. A typical farm household cultivates a principal crop or two, such as corn or rice, which provides subsistence and some cash income for the family (Louis Berger International 1991a: 2-6). In contrast, Dole Philippines, Inc. controls over 20,000 thousand hectares of land in the province mostly under lease agreements and farm management contracts. These lands are planted primarily to pineapple and banana directly by the company through worker associations and indirectly by the company through big business concerns and independent growers (Alternate Resource Center 1990: 2).

Fishing

Fishing in General Santos City is classified into two main sectors: commercial and municipal. According to Broad with Cavanagh (1993: 173-4), "By definition, commercial

fishers are those who use boats of more than three gross tons and operate three or more nautical kilometers from shore. The ... category, municipal fishers, is made up of those whose boats are under three tons and who operate within the three-kilometer limit." In South Cotabato, commercial and municipal fishers operate both within and beyond the three-kilometer limit.

Commercial fishers use the purse seine or ring net method of capture. A purse seine unit consists of one catcher vessel or mother boat from which the net is set out and retrieved, one or more light boats stationed near the fish aggregating device or payaw, one scout boat, and two carrier vessels. As many as 40 to 60 persons may be involved in purse seine operations.

Municipal fishers use a variety of capture methods ranging from hook and line, multiple handline, longline, beachseine and the use of various nets. As many as six to 10 persons may be involved in municipal pumpboat operations. Usually only one person is involved in non-motorized fishing. In General Santos City and the coastal towns of South Cotabato more than 30,000 persons earn from fishing on a regular basis.

Major fishing grounds are the Sarangani Bay, the Moro Gulf, the Celebes Sea, the Mindanao Sea, the South Sulu Sea, and the waters up to Indonesia and Malaysia. Commercial mother boats are usually at sea for three months and carriers for seven to 12 days. Municipal motorized pumpboats are normally at sea for nine to 12 days and non-motorized boats for five hours a day.

While municipal fishers usually land their catch at public areas like Lion's Beach and the *poblacion* or town proper landing, commercial fishers normally land their catch at one of 19 private ports. The most common fish landed at General Santos are yellowfin tuna, roundscad,

big-eye scad, skipjack tuna, frigate mackerel and marlin. Yellowfin tuna landed at Lion's Beach and classified as sashimi grade is trucked to Davao City and then flown to Manila for export to Japan and other foreign countries. Fish landed at the poblacion is sold locally in the city or trucked to markets in South Cotabato and elsewhere in Mindanao (Sultan Kudarat, Davao, Bukidnon, Agusan, Misamis and Surigao). Fish landed at the private ports is usually exported or sold to one of the four tuna canneries located in the city; namely, Purefoods, Santa Monica, Celebes, and RFM. A fifth cannery, Seatrade, is scheduled for operations in 1992 (PFDA Fishing Industry Profile 1991).

From 1981 to 1990, General Santos City landed 763,992 metric tons of fish. Of this amount 612,985 tons or 80 per cent were supplied from commercial operations. It is worth noting that the catch reached a peak in the mid-1980s and has steadily declined since 1988. Still, in 1990 the local fishing industry landed about 225 metric tons of fish daily, making it the second largest landing site of fish in the country (Table A3-C).

Trade

In 1989, exports from General Santos City were valued at US\$ 128 million while imports were valued much lower at US\$ 41 million (Wilbur Smith Associates 1991: 3-13). Among the leading exports were pineapples, bananas, tuna, Philippine mahogany, cotton seeds, scrap copper, guano and asparagus (Table A3-D). Among the leading imports were fertilizer, kraft liner, tin sheets and steel plates, ammonium sulphate and perosulphate, other chemical products and preparations, animals for breeding stock, insecticides and fungicides and spare parts (Table A3-E).

Table A3-A. Estimated Crop Areas Harvested, Production and Yields, South Cotabato, 1989

Crop	Area Harvested (ha)	Production (t)	Yields (t/ha)
Palay	52,700	187,465	3.56
Corn	491,250	1,022,110	2.08
Coconut	115,351	953,227	8.26
Pineapple	15,756	471,480	29.92
Banana	2,020	61,874	30.63
Mango	1,978	10,968	5.55
Cassava	786	9,337	11.88
Camote	226	1,939	8.58
Coffee	3,713	6,349	1.71
Tomato	127	818	6.44
Cabbage	56	455	8.12
Calamansi	32	403	12.58
Onion	30	223	7.43
Cacao	120	108	0.90
Peanut	51	39	0.76
Mongo	70	64	0.91
Rubber	48	52	1.07
Tobacco	23	10	0.43
Cotton	7,644*	7,512*	0.98*

Source: Bureau of Agricultural Statistics cited in Louis Berger International (1991a: 2-3).

* Data from Philippine Cotton Corporation for 1988-89 crop year.

Note: Area harvested may be a multiple of physical area occupied, due to multiple croppings on the same area within the calendar year.

Table A3-B. Livestock and Poultry Inventory, South Cotabato, 1990*
(unit number of head)

Type of Animal	Backyard **	Commercial	Total
Carabao	49,360	—	49,360
Cattle	33,300	14,470	47,770
Hogs	98,050	68,930	166,980
Goats	43,070	2,730	45,800
Chickens	1,270,170	162,540	1,432,710
Ducks	242,560	17,060	259,620

Source: Bureau of Agricultural Statistics cited in Louis Berger International (1991a: 2-5).

* Preliminary estimates.

** Backyard activities, as opposed to commercial operations, are defined as those with less than 21 adult head for carabao, cattle, hogs or goats and less than 500 layers for chickens.

Table A3-C. Volume of Marine Fish Landed, General Santos, 1981-90
(in metric tons)

Year	Municipal	Commercial	Total
1981	8,550	40,290	48,840
1982	7,398	56,793	64,191
1983	9,895	42,143	52,038
1984	6,880	23,273	30,153
1985	23,493	99,610	123,103
1986	29,935	73,223	103,158
1987	30,453	49,150	79,603
1988	12,214	79,396	91,610
1989	10,774	78,249	89,023
1990	11,415	70,858	82,273
Total	151,007	612,985	763,992

Source: Bureau of Fisheries and Aquatic Resources, Philippine Fisheries Development Authority, and Business Resource Center.

**Table A3-D. Ten Leading Export Products by Weight and Value,
General Santos, 1989**

Commodities	Gross Weight (MT)	F.O.B. Value (\$)
Canned Pineapples	129,891	45,521,150
Fresh/Dried Pineapples	70,044	10,607,334
Fresh Bananas	39,695	7,416,417
Canned Tuna	8,392	16,967,832
Philippine Mahogany Lumber	6,775	1,567,659
Cotton Seeds	4,399	664,121
Frozen Tuna	2,280	3,408,435
Scrap Copper	183	331,487
Guano	100	9,000
Fresh Asparagus	5	11,132
Total	261,764	86,504,567

Source: Department of Trade and Industry, General Santos City cited in Louis Berger International (1991a: 2-8).

**Table A3-E. Ten Leading Import Products by Weight and Value,
General Santos, 1989**

Commodities	Gross Weight (MT)	F.O.B. Value (\$)
Urea	31,526,124	4,762,233
Kraft Liner, in Rolls & Sheets	21,068,026	6,845,536
Tin Sheets and Steel Plates	16,596,820	8,983,283
Articles Temporarily Exported/Imported	5,643,735	3,993,748
Ammonium Sulphate and Perosulphate (including alums)	3,577,000	348,893
Gifts, Donations and Articles for Relief, Education and Scientific Purposes	2,010,000	201,000
Bovine Animals, Live Purebred for Breeding and Scientific Purposes	1,942,300	2,037,428
Other Chemical Products and Preparations (potassium chloride)	1,504,350	175,500
Insecticides/Fungicides	112,322	355,891
Parts, N.E.S. of Machines	90,550	990,530
Total	84,071,227	28,694,042

Source: Department of Trade and Industry, General Santos City cited in Louis Berger International (1991a: 2-9).

Appendix 4

USAID/Philippines' Response to this Report

When this report was first completed in August 1992 under the title 'Bricks and Mortar for Growth's Sake Do Not a Multilateral Aid Initiative Make — A Critical Assessment of the General Santos City Special Development Zone Project', a copy was sent to the USAID Mission in the Philippines. In January 1993, after the entire report had been edited, the chapters reorganized and the title changed, a second edition was forwarded to the Mission. This did not yet include the postscript of Chapter 4. The response of USAID/Philippines, reprinted here in its entirety, was first written in September 1992 and slightly edited in March 1993:

Response

Following is USAID/Philippines' response to "Bricks and Mortar for Growth's Sake Do Not a Multilateral Aid Initiative Make — A Critical Assessment of the General Santos City Special Development Zone Project" by Dr. John P. McAndrew.

USAID/Philippines is grateful for the opportunity to reply to the conclusions contained in the report entitled "Bricks and Mortar for Growth's Sake Do Not a Multilateral Aid Initiative Make — A Critical Assessment of the General Santos City Special Development Zone Project."

The aforementioned report has been read with interest throughout the Mission. Basically, we find it to be a well-written document, which reflects knowledge of a number of the factors influencing the pace and process of economic development in the region. We are sure that a good deal of the information provided in the document will be very helpful to us, the Government of the Philippines (GOP), and other project participants as implementation progresses.

Although we appreciate and will benefit from the work

undertaken, it will probably come as no surprise that, for the most part, USAID/Philippines does not agree with many of the conclusions reached regarding the basic design and implementation of the project.

The report finds fault with the project in three principal areas:

1. - that the project is largely focused on development of physical infrastructure facilities as opposed to being focused on the provision of assistance directly targeted at empowering poor people;
2. - that the project has paid and/or will pay insufficient attention to significant environmental issues; and
3. - that, even if the project does result in significant economic growth in the region, the distribution of the benefits of this growth will not be equitable;

USAID's position on these matters, in brief, is as follows:

1. - There exists an extensive body of research, and long AID experience, to demonstrate that physical infrastructure projects do benefit the poor. The historical evidence is quite clear that infrastructure investments particularly rural highways, ports and rural roads facilitate the spread of technology and lead to increments to rural incomes (see John Mellor's assessment of infrastructure impact on small farmers of South Cotabato, June 1992). As a further example, a 1990 study completed by the Center for Research and Communications (a local think tank) on various Philippine regions showed that each additional kilometer of farm-to market road generated, on average, P740,000, or \$32,000, in additional agricultural production for the area along the road.

2. - A good deal of effort and attention have already been devoted to ensuring that project activities have only minimal negative effects on the environment, and the required knowledge and mechanisms are in place to help ensure that environmental concerns are fully considered and respected as the project proceeds.

The Surallah—Lake Sebu road mentioned in the report is not being built on the recommendation of the Consultants. Roads into areas with virgin forests are not being built. The Surallah-T'Boli road, also mentioned in the report, is not being built for the purpose of mining and no benefits to mining were estimated. The road is an all-weather road, permitting full access to the area, and the benefits are primarily road user-cost savings.

Further, under the Mindanao Growth Plan (MGP) presently being prepared in consultation with local citizens and officials, enhancement of the existing environmental conditions will be made based on six strategies: Rehabilitation of Environmentally Degraded Areas, Increased Public Involvement in Environmental Protection, Enhanced Management Capability of Local Government Units in Environmental Management, Resolution of Resource Use Conflicts, Environmental Advocacy, and Environmental Screening of Projects.

3. - Though all benefits of the project might not be equally shared among all sub-groups in the region, virtually all people in the region will receive some benefits, and specific activities are being undertaken through this and other projects to help ensure that poor people receive a greater share of benefits.

USAID/Philippines agrees that assistance for the rural poor should be an integral part of the MDP, but we recognize that incomes of the rural poor do not necessarily depend on farming alone. In fact, past experience would indicate that a large share of small farmer income originates from off-farm jobs. Since the assets of the poor generally comprise unskilled labor, the development

project that increases the absolute and relative demand for unskilled labor, coupled with institutions which enhance labor mobility and access to jobs by the poor, along with programs to cushion adverse, transitional effects, will benefit the poor most. Research and experience have shown that activities designed to have a positive effect on the poor must be accompanied by a development strategy that encourages broad-based growth of the economy. Such a strategy involves the rapid absorption of labor into the “modern” sector — industry, agro-processing or services. This means reliance upon more labor intensive growth through export expansion of processed agricultural products. This strategy can be effective in achieving higher growth rates and better distribution of income.

Infrastructure investment is about improving access. Access to local markets and services and regional and international markets. The people who will use the infrastructure being built will be primarily small producers. It is unfair to say that these investments are being built for large corporations and multinationals. The MDP should be looked at as a part of the GOP's efforts to transform the Philippine economy into a competitive, fair trade economy which should result in an increased number of productive off-farm jobs with increases in farm productivity and incomes.

Our position, as outlined above, is based upon and strongly supported by the many and intensive economic, technical, environmental, and other analyses that were carried out in connection with the different elements of the project, and for the project as a whole. These analyses, as stated or implied at various points in the “McAndrew” report, though not necessarily perfect, were professionally and competently done. Furthermore, we believe that the fundamental conclusions of the various analyses remain valid.

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