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AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

DIHB

June 8, 1988

MEMORANDUM

TO: Distribution

FROM: ANE/PD, Bruce J. Odell 

SUBJECT: PHILIPPINES: Agrarian Reform Program (492-0431)  
PAIP Review Issues Paper

The attached issues paper is for the subject review, scheduled for Friday, June 10 from 2:00 - 4:00 in Room 6660 NS.

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PHILIPPINES  
Agrarian Reform Program  
Issues Paper for ANPAC Meeting  
Friday, June 10, 1988

A. Program Summary

The Agrarian Reform Program proposes to provide \$50 million in grant assistance to support eligible GOP budget items such as production credit, support services and rural roads in the Philippines Comprehensive Agrarian Reform Program (CARP). In total, the estimated budget for CARP is expected to be about \$350 million. The Mission plans to use a sector assistance mode for the program, with funds released quarterly to replenish eligible expenditures for the previous quarter, subject to satisfactory progress on CARP as indicated by agreed benchmarks. Under the Mission's proposal, the U.S. might disburse as much as 40% of the total for eligible items. Thus the U.S. \$50 million could be disbursed in the first \$125 million of expenditures, or during the first third of the CARP program.

The A.I.D. program is part of a multi-donor effort to help the Philippines finance the CARP, and derives from an FY 88 Continuing Resolution earmark that specifies that funds shall only be made available if "(1) the GOP initiates an effective Agrarian Reform Program and requests assistance from the U.S. for the program and, (2) a substantial majority of the resources for the implementation of that program will be provided by the GOP or other non-U.S. donor, or both." The earmark also provides that if these conditions are not met by August 31, 1988 the U.S. funds may be made available for other countries or programs. Since ESF funds are available for two years, the Executive Branch has the flexibility to carry the earmarked funds into next fiscal year. While indicating it was "hopeful" the conditions will be met, the Obey Committee in the FY88 and FY89 reports on appropriations urged the Administration to work with the Philippines toward successful

implementation of the agrarian reform program and to exercise flexibility in the deadline for reallocation of funds. Also, the HFAC report on its version of the earmark indicated that the committee expects that the Executive Branch will consult with Congress "prior to the expenditure of these funds, concerning specific purposes for which it intends to use them." "Expenditure" should be considered as "obligations" for the purpose of these consultations.)

Prior to PAAD approval, we will need to clarify the points below.

B. Program Issues

1. What is an acceptable basis for determining effectiveness of the Land Reform Program as required by Congress?

Discussion: There is a need to clarify what the program will accomplish and how it can be supported by U.S. assistance. For any approach chosen, we are required to attest to the 'effectiveness' of the program, and it is not clear on which assumptions, analysis and goals such an assertion should be made.

One view, proposed by the Mission, is that the U.S. program should be limited to agrarian reform budget support as a means to provide reasonably quick disbursing assistance for this politically important and sensitive program, with minimal U.S. engagement in the implementation process. The rationale for this position is that the GOP agrarian reform program will have limited or no economic development impact, that implementation will be difficult and controversial, and that it is essentially a political program intended to achieve political objectives. Advocates of this approach are concerned that we may get stuck in a "quagmire" if we attempt to intervene very deeply into the difficult land reform environment.

The Mission has asserted that effectiveness can be determined primarily by success to date in the existing elements of the Marcos initiated Land Reform Program for corn and rice land (Program "A") and by assessment of probable success in carrying out land reform on idle, abandoned, foreclosed or sequestered land (Program "B") and certain public land-holdings (Program

"D"). There is some question, however, on the appropriate definition of success in these programs and whether this is an adequate measure of overall CARP effectiveness in the Congressional sense of the term. The Mission's approach to the definition of effectiveness sidesteps whether Program "C", essentially directed at privately held sugar, pineapple and coconut lands will be meaningfully implemented at all.

A contrasting view is that we should focus on the potential economic impact of the program and support the achievement of developmental objectives. To do this, A.I.D. would require more complete information on the framework of CARP first, and then determine how the program will work, and finally how we can support implementation through technical assistance, analytical studies and/or other interventions. Under the latter approach we would need to know the implementation details, the expected impact in terms of agricultural production, growth of rural incomes, increased participation in the political process, redistributing of rural assets or other such indicators of development impact and monitor progress. Consistent with this view would be analysis of the just-passed land reform law, which includes important provisions such as retention limits, and affirmation by the Mission and AID/W that the new law makes CARP both comprehensive and equitable with the purpose of ensuring CARP's "effectiveness".

Past experience with similar programs under Marcos suggests that regardless of the developmental merit, the administration of the program may very well be flawed and that it is unlikely to be implemented as planned. What criteria should be used to assess the program to date, or assess likely future impacts? How should we monitor the program to assure continued effectiveness and that the program is not producing significant adverse impacts? What importance should we assign to A.I.D.'s assessment of effectiveness of the developmental impact of the program, i.e., its impact on agricultural production or the more equitable distribution of rural income and assets, or even to the prospects of actually implementing the letter of the law?

For any approach chosen, there are implications for: (a) the nature of A.I.D. support (ranging from project assistance to cash transfer-like program assistance) and the extent of A.I.D. involvement in the implementation of CARP; (b) acceptability,

or expectations, by other donors, the GOP, State and U.S. Congressional interests of the degrees of A.I.D. involvement; (c) design and obligation timing; (d) monitoring and evaluation requirements; (e) vulnerability to audit; (f) staff intensiveness of the program; and (g) speed and timing of disbursements.

Recommendation: We support a sector program approach. We ask the mission to provide a clear rationale for the determination of effectiveness, including an adequate description and analysis of the soundness of the administrative, financial, social and technical aspects of the existing program and of the proposed CARP program. We will consult with Congress on the purpose of the assistance called for by the HFAC report and should also be prepared to discuss our assessment of "effectiveness." The Mission should also devise a performance disbursement formula to prevent unbalanced disbursements "up-front" which might work against leverage over the course of the program, as well as a system for monitoring the program and verifying that physical benchmarks have been achieved and a means to monitor what impacts are occurring in the countryside during program implementation. In the PRC, the Mission discussed the idea of a "trap door" which would allow A.I.D. to terminate further support if the implementation of the agrarian reform program no longer meets the criteria for an effective program. The PAAD should elaborate on this mechanism for rapid termination of assistance.

2. Is a dollar special account appropriate for this sector assistance program?

Discussion: The Mission has proposed a sector program approach with a dollar special account, but ANE Bureau has been trying to maintain a clear distinction between cash transfers (which are required by Congress to have dollar special accounts) and sector programs (which do not require them). We may jeopardize the present approach for sector programs and lose or diminish its value as a tool for policy reform if it appears that there is little or no difference between cash transfers and sector programs. What are the trade-offs for having or not having a dollar special account? Will we set a difficult precedent by having a dollar special account for a sector program or can we characterize this program as an exception to the usual rule?

Recommendation: That we alert the Mission of the pending AID/W issue and, after further discussions within the Agency, advise the Mission on appropriate guidance.

3. Should the PAAD be brought back to AID/W for review and approval?

Discussion: Much of the analysis still remains to be done, including what will be the practical impact of the new land reform legislation coming out of the Philippine Congress. We will have to have close and continuing consultations with elements of the U.S. Congress as we move forward to a decision on the program. The Administrator has expressed special concerns over the appropriateness and implementability of A.I.D support of land reform activities.

Various options include: (a) requiring the Mission to submit the complete PAAD for AID/W review. This could cause issues to be opened up that would presumably be "closed" at the PID stage; (b) accepting a more limited submission to AID/W covering critical PAAD elements such as major objectives and a description of program components and monitoring arrangements; or (c) letting the Mission decide which of the alternatives best meets our mutual needs.

Recommendation: To meet our own as well as Congressional concerns we should require the Mission to submit the PAAD for AID/W review, or at least request a description of critical elements of the PAAD, including the objectives of the program, its components, and the monitoring arrangements.

C. Discussion Points:

1. Timing of Assistance. Under the current CR earmark, if A.I.D. cannot determine that all requirements (including "effectiveness") have been met by August 31, then U.S. funds "may" be made available for other countries or programs. Reprogramming the earmarked funds, however, is not required and A.I.D. may continue to hold the \$50 million for the agrarian reform program. The recently passed House Foreign Assistance Appropriation Bill states that the \$50 million can remain available beyond August 31 at the discretion of the

Administration. However, if it appears likely that this date will pass without A.I.D. determining that this condition has been met, we will need to consult with Congress on the reasons for the delay and the likelihood that funds can still be used for the program.

2. Components for Support. There has been some concern that our assistance not be associated with "uncongenial" items such as expropriation of land, collective farming experiments and (particularly) an agricultural credit program with unsound policies. The PAIP approval cable should reflect the need for selection of relatively "non-sensitive" and technically sound program components to be associated with our funds, and the need to build in assurances that the credit component will operate within an acceptable institutional and policy framework.

3. Donor Interest and Coordination. Because Congress has mandated a "minority" role for AID assistance to CARP, we need to assure that other donors with the GOP make up the majority of resources for the program, and that we complement, and not double fund, other donor inputs. The PAIP approval cable should note the need for firm assurances of majority resource commitments from non-U.S. donors and the need for an adequate donor coordinating mechanism before disbursing funds.

In addition, the Japanese favor meaningful support to the program within a multi-donor context. They have questioned our getting out in front too far with our \$50 million and want all donors to await the enactment of a program by the Philippine Congress and an early CG on this before committing assistance. We need to consider how best to consult with the Japanese and other important donors on any key decisions we plan to make in this program.

Authorities: AID Handbook 5 Delegation of Authority No. 400 provides that the AA/ANE may delegate authority to authorize a project when the life-of-project funding exceeds \$20 million based on policy, programmatic and staffing considerations.

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