PD-ABD-551

PRIVATE INVESTMENT AND TRADE OPPORTUNITIES --PHILIPPINES (492-0449)

PROJECT PAPER

USAID/PHILIPPINES
September 1990

PRIVATE INVESTMENT AND TRADE OPPORTUNITIES -- PHILIPPINES
(492-0449)

PROJECT PAPER

USAID/PHILIPPINES
September 1990

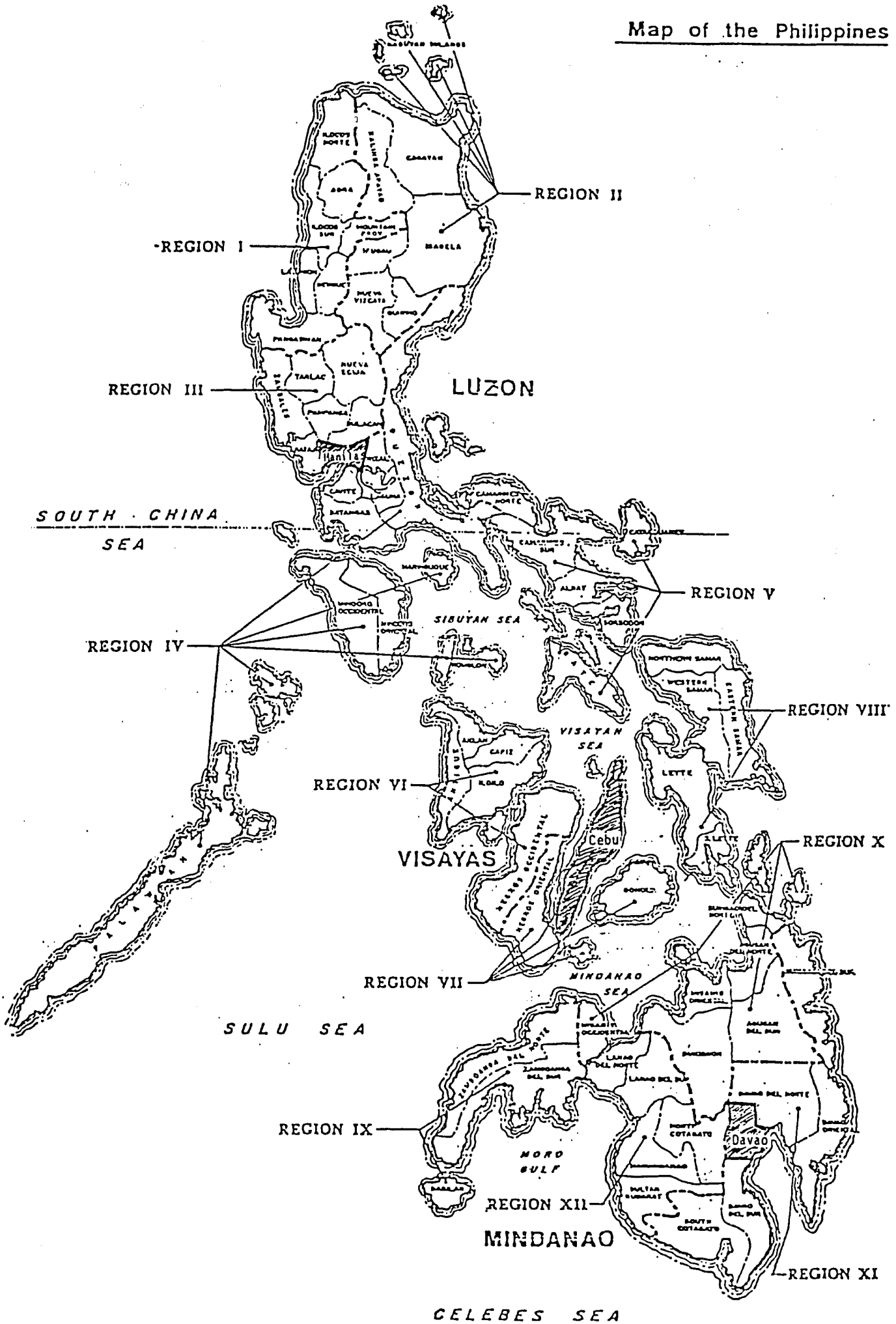

Map of the Philippines
REGION I
REGION II
REGION III
REGION IV
REGION V
REGION VI
REGION VII
REGION VIII
REGION IX
REGION X
REGION XI
REGION XII
LUZON
VISAYAS
MINDANAO
SOUTH CHINA SEA
SIBUYAN SEA
VISAYAN SEA
SULU SEA
MINDANAO SEA
MORO GULF
CELEBES SEA
Manila
Cebu
Davao

TABLE OF CONTENTS

	Page
Project Data Sheet	iii
Project Authorization	iv
Acronyms and Abbreviations	v
Executive Summary	vi
I. PROJECT BACKGROUND AND RATIONALE	1
A. The Philippines' Economic Performance and Outlook	1
1. Lagging Economic Performance	1
2. The Central Role of Trade and Investment	2
3. Commercial Policy Strategies	3
B. Constraints to Trade and Investment	3
1. Limited Expansion of Trade and Investment	4
2. Poor Export Performance	4
3. Unexploited Comparative Advantage	4
4. Institutional Infrastructure and Commercial Policies	4
C. Identified Needs and Objectives	5
1. Trade and Investment Promotion	5
2. Policy Analysis and Problem Resolution	6
3. Training and Technical Assistance	7
II. PROJECT DESCRIPTION	8
A. Goal and Purpose	8
B. Project Components	8
1. Trade and Investment Promotion	8
2. Policy Analysis and Problem Resolution	12
3. Training and Technical Assistance	13
C. Organizational Management Approach	14
D. Project Inputs	15
E. Project Outputs and Beneficiaries	16
1. Project Outputs	16
2. Beneficiaries	16
F. Performance Indicators	17
G. End of Project Status	17
III. PROGRAM FACTORS	19
A. Relationship to USAID Strategy	19
B. Relationship to GOP Objectives	20
C. Donor Coordination	20

IV. IMPLEMENTATION PLAN 22
A. Roles and Responsibilities 22
1. PHILEXPORT 22
2. Project Implementation Committees 22
3. GOP 22
4. USAID 23
5. PITO-ASEAN Project 23
B. Project Management 24
1. Management Arrangements 24
2. Project Monitoring 26
C. Implementation Schedule 27
D. Procurement Plan and Contracting Arrangements 27
E. Procurement of Goods and Services 28
F. Women in Development 28
G. Gray Amendment 28
H. Evaluation Plan 28
1. Users of the Information 29
2. Manager's Questions 29
3. Key Indicators 29
I. Environmental Concerns 30

V. COST ESTIMATES AND FINANCIAL PLAN 31
A. Cost Estimates and Financial Plan 31
B. Methods of Implementation and Financing 34
C. Recurrent Costs 35
D. Audits 35

VI. SUMMARY OF ANALYSES 36
A. Technical Analysis 36
B. Economic Analysis 38
C. Financial Analysis 40
D. Social Soundness Analysis 41
E. Administrative Analysis 41

VII. CONDITIONS, COVENANTS AND WAIVERS 43

ANNEXES:

A. Logical Framework
B. GOP Letter of No Objection
C. PID Approval Cable
D. Statutory Checklist
E. Technical Analysis
F. Financial Analysis
G. Economic Analysis
H. Administrative Analysis
I. Gray Amendment Certification
J. Justification for Selection of PHILEXPORT

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Philippines

3. PROJECT NUMBER: 492-0449

4. BUREAU/OFFICE: Asia, Near East and Europe — 04

5. PROJECT TITLE (maximum 40 characters): PRIVATE INVESTMENT AND TRADE OPPORTUNITIES - PHILIPPINES

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 94

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 90 B. Quarter 4 C. Final FY 93

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 90 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(772)	(712)	(1,484)	(4,867)	(5,133)	(10,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1. Private Sector					2,250	2,250
Other U.S. 2.						
Host Country		1,350	1,350		1,350	1,350
Other Donor(s)						
TOTALS	772	2,062	2,834	4,867	8,733	13,600

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) PSEE	730	840							
(2) ARDN	270	840							
(3)									
(4)									
TOTALS						10,000		10,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To establish a mechanism to increase trade and investment activity in the Philippines through promotional services and assistance, training and technical assistance, and policy analysis and reform. Obligation will be made through the execution of a Cooperative Agreement with the Philippine Exporters Foundation.

14. SCHEDULED EVALUATIONS
Interim MM 03 YY 93 MM YY Final MM 03 YY 94

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [ ] 941 [ ] Local [ ] Other (Specify):

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

NOTE: The provisions of the payment verification policy regarding methods of implementation and financing, financial capability of recipients, and adequacy of audit coverage have been adequately addressed in this document.

J.C. Stanford, Controller

17. APPROVED BY
Signature: Malcolm H. Butler
Title: Director USAID/Philippines
Date Signed: MM 09 DD 10 YY 90

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

Philippines

Private Investment and Trade Opportunities Project, Philippines

Project No. 492-0449

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Investment and Trade Opportunities Project, Philippines (the "Project") for the Republic of the Philippines (the "Cooperating Country") involving planned obligations of not to exceed Ten Million United States Dollars ($10,000,000) in grant funds over a three (3) year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to assist in financing foreign exchange and certain local currency costs of the Project. The planned life of the project is through September 30, 1994.

2. The Project consists of increasing the level of trade and investment activities in the Philippines through funding for the provision of trade and investment services, policy analysis and related studies, training, technical assistance, and operational support costs.

3. It is envisioned that a Cooperative Agreement will be executed with a Philippine non-stock, non-profit private foundation, to assist in the implementation of the Project. An implementation committee (the "Committee"), which will include representatives from private sector organizations and the Cooperating Country, will be established to manage implementation progress under the project. The Committee will meet periodically to review progress. USAID will be a non-voting member of the Committee with observer status. Funds to finance the services of a Project Officer responsible to monitor progress under the project will be included in the Cooperative Agreement.

4. The source and origin of commodities and ocean shipping to be financed under the Project will be established in accordance with the Standard Provisions for Cooperative Agreements, except as A.I.D. may otherwise agree in writing.

Signature: Malcolm Butler

Malcolm Butler
Mission Director
USAID/Philippines

Date: SEP 10 1990

Clearances:

PESO:BCornelio	(draft)	7/20/90
OFM:JCStanford	(draft)	7/20/90
OLA:LChiles	(draft)	7/20/90
OD/PE:PRDeuster	(draft)	7/20/90
DRM:JAPatterson	(draft)	7/24/90
OD:RAJohnson	RAJ	9/5/90

ACRONYMS AND ABBREVIATIONS

AID	Agency for International Development
ANE	Asia, Near East and Europe Bureau
ASEAN	Association of Southeast Asian Nations
AUSBC	ASEAN-U.S. Business Council
BOI	Board of Investments
BRETA	Board of Investments-Registered Export Traders Association
COPE	Confederation of Philippine Exporters
DTI	Department of Trade and Industry
FCS	U.S. Foreign Commercial Service
GDP	Gross Domestic Product
GNP	Gross National Product
GOP	Government of the Philippines
IMF	International Monetary Fund
IRR	Internal Rate of Return
NEDA	National Economic and Development Authority
NGO	Non-Government Organization
OPIC	Overseas Private Investment Corporation
PACD	Project Activity Completion Date
PCCI	Philippine Chamber of Commerce and Industry
PESO	Private Enterprise Support Office
PHILEXPORT	Philippine Exporters Foundation
PITO	Private Investment and Trade Opportunities Project
RSC	Regional Service Center
SME	Small or Medium-Sized Enterprise
UNDP	United Nations Development Programme
USAID	AID Mission to the Philippines

EXECUTIVE SUMMARY

1. PROJECT TITLE AND NUMBER: Private Investment and Trade Opportunities (PITO) -- Philippines (492-0449).

2. IMPLEMENTING ENTITY: The Philippine Exporters Foundation (PHILEXPORT).

3. FUNDING LEVEL AND TERMS: U.S. $10 million grant from Development Assistance funds, with $1.484 million to be obligated in FY 1990.

4. PROJECT PURPOSE: The project's goal is to contribute to long-term sustainable economic growth in the Philippines through the development of private sector trade and investment. The project's purpose is to establish a mechanism to increase trade and investment activity in the Philippines through promotional services and assistance, training and technical assistance, and policy analysis and reform.

5. PROJECT DESCRIPTION: The project has three private sector components, each of which addresses a need not being adequately met by existing programs and institutions, and each of which fills a gap in USAID's overall private sector program. Component One consists of a system to deliver intermediary services -- trade and investment promotion and assistance activities -- to private sector entrepreneurs. These initiatives will include general promotion, trade and investment venture brokering, and development and administration of a commercial information database and system. Component Two involves the identification and preparation of policy analyses directed toward resolving concrete policy and regulatory problems facing Philippine and U.S. traders and investors. Component Three consists of the organization and delivery of targeted training and technical assistance to Philippine traders and investors, with a special focus on assistance to the development of productive commercial ventures between the Philippines and the United States.

   The project will be implemented by PHILEXPORT, which will serve as project manager. PHILEXPORT will be responsible for carrying out the three project components identified above, in collaboration with relevant private and public sector organizations in both the Philippines and the United States. In addition to coordinating the overall project, PHILEXPORT will also manage three regional project offices -- one each in Metro Manila, Cebu and Davao. Under PHILEXPORT's direction, each regional office will be charged with providing to private entrepreneurs the services specified in each project component.

   The following outputs are expected over the life of the project: (a) three regional trade and investment service centers operating on a sustainable basis and providing services to private sector entrepreneurs; (b) a series of trade and investment promotion activities in the areas of

general promotion, investor/trader assistance, trade and investment brokerage services, and information collection and dissemination; (c) economic/commercial policy analyses and recommendations for appropriate reforms and implementation strategies; and (d) training and technical assistance to traders/investors in areas needed for internationally competitive ventures, such as marketing, quality control, accessing technology, and product design and packaging.

6. USAID RECOMMENDATION: USAID/Philippines has reviewed and discussed the PITO-Philippines project design in detail, and considers the project economically, administratively and technically feasible, socially sound and without negative environmental effects. The cost estimates are reasonable and the project meets all applicable statutory criteria. Responses to issues raised during AID/Washington review of the PID are discussed in Annex C to the Project Paper, and detailed analyses and other information supporting the project design are presented in Annexes E through H.

   The USAID Mission Review Committee recommends approval and authorization of the project and the negotiation and award of an $8.75 million cooperative grant agreement to PHILEXPORT.

7. DESIGN TEAM: The Project Design Team members are:

PESO:Bruno Cornelio, Jr.	DRM:Patricia L. Jordan
PESO:Manuel Villanueva	CSO:Stanley D. Heishman
ORAD:Rodger D. Garner	OFM:Sarah Diama
ORAD:Lydia O. Martinez	OLA:Lisa Chiles
OD/PE:Gil Dy-Liacco	ANE/PD:Patricia Matheson

I. PROJECT BACKGROUND AND RATIONALE

A. THE PHILIPPINES' ECONOMIC PERFORMANCE AND OUTLOOK

1. Lagging Economic Performance

Since the end of World War II, the economic performance of the Philippines has alternated between periods of expansion and contraction, the latter being typically triggered by balance of payments crises. Due to the absence of sustained growth, the Philippines has lagged behind many other nations in the region in expanding output, income and standards of living. In 1966, Philippine per capita gross national product (GNP) in current prices was $180, some 38 percent above those of Thailand and South Korea (about $130), and six times greater than the Indonesian level of $30. By 1985, the per capita output of the Philippines ($570) was 30 percent lower than Thailand's, just over one-fourth of South Korea's, and 26 percent higher than Indonesia's.

Among the four countries being compared, the Philippines had the highest trading levels in 1966. By 1985, the Philippines had reversed its position and dropped to the lowest. Its exports of $4.7 billion were well below those of Thailand ($7 billion), Indonesia ($18 billion) and South Korea ($30 billion). This lagging performance is reflected in other economic indicators as well. While beginning with investment rates at or above those of the other nations, the Philippines' investment as a share of GNP amounted to 14.5 percent in 1985, below Thailand's 24 percent, South Korea's 30 percent and Indonesia's 36 percent. The Philippines also fell behind the others in terms of capital-output ratios and productivity.

The rate of inflation, though well below the peak rate of 51 percent reached in 1984, remains in double digits, amounting to 14.1 percent in 1989. Structural adjustment slowdown, reflected in the December 1989 coup attempt and prolonged electrical power shortages, had been fueling inflation and undermining the country's internal growth and external competitiveness. In addition, the Philippines faces increasing prospects of a serious balance of payments crisis. The external debt of the Philippines at the end of 1989 was approximately $28 billion, 62 percent of gross domestic product (GDP). Debt servicing requirements represent 242 percent of the nation's exports of goods and services and related transactions earnings.

Despite significant reform progress in recent years, this lagging economic performance is largely due to a policy regime that continues to be characterized by increasing government interventionism and trade restrictions supporting an import substitution strategy. These in turn have led to biases toward capital-intensive production, urbanization and debt-financed growth, as well as widespread corruption. Consequently, while many nations in the region are now reaping the rewards of sustained policy reform efforts, the Philippines continues to struggle with the need to dismantle a complex web of counterproductive policies and practices.

Notwithstanding periods of respectable economic growth over the past two decades, the Philippines has not achieved sufficient development progress to meet the needs and increasing expectations of the nation's populace. Per capita income rose in real terms through most of the 1970s, but rates of growth fell in all but one year from 1975 (about 4.5 percent) to 1984 (negative 9.5 percent) before recovering to the historical rate of 4 to 5 percent in the late 1980s.

The Philippines will have to refocus its efforts if it is to remain competitive within the region and the world and if the basic needs of the population are to be met. Following the 1986-1988 recovery, growth in output is expected to decrease from the current 4 to 5 percent range to the 3 percent level over the next three to five years. Projections made by USAID suggest that either of two scenarios are likely to occur. Under a case of appropriate policy reforms and private sector initiatives, growth in per capita output could recover to rates of 5 percent or more. However, if necessary reforms are not undertaken, these rates will continue to decline.

2. The Central Role of Trade and Investment

As with most nations in the East Asian region, the Philippine economy has undergone a significant structural transformation over the past two decades. The locus of economic activity has shifted from rural to urban areas, and the predominant commodity composition of outputs has changed from agriculture to manufacturing. This shift is best demonstrated in the nation's export composition. In 1970, the share of traditional commodities (primarily agricultural products and minerals) accounted for 91.5 percent of total exports, with nontraditional manufactures representing the remainder. The share of traditional exports fell to 21.0 percent in 1989, with nontraditional manufactured goods such as garments and electronics expanding to 79.0 percent of the total.

In addition, the Philippine economy is becoming increasingly dependent on external trade. The nation essentially exports agricultural goods, semiconductors and apparel in order to finance imports of machinery, transport equipment, fuels and chemicals. Trade as a share of GNP rose from 43.8 percent in 1986 to 51.1 percent in 1989. However, most of this increase can be attributed to growth in imports.

Domestic consumption and rising living standards are heavily reliant upon imports. The country had a trade balance deficit of $2.2 billion in 1989, double the previous year's level. The Philippines experienced a current account shortfall of $1.6 billion during the same period. This imbalance is the direct result of the unabated demand for capital goods and raw material imports generated by increased domestic demand for more and better consumer products.

As a result of these trends, increasing productive investment and expanding exports are requisite for economic progress in the Philippines. Foreign investment inflows have increased considerably since the 1986 change

of administration. New foreign investment has grown from a decade low of $78 million in 1986 to $804 million in terms of approvals ($44 million to $166 million in terms of paid up capital). Exports have also grown, as noted above. However, exports have not expanded at a rate sufficient to finance the country's import and debt servicing requirements, and new investment -- either foreign or indigenous -- is not adequate to meet the need to increase the Philippines' productive capacity.

3. Commercial Policy Strategies

During the 1950s and 1960s, the Philippines embarked upon a disastrous protectionist course of foreign exchange and import controls, designed to support an import substitution strategy. The policy structure imposed numerous biases against exports and in favor of capital-intensive, urban-based production for domestic consumption.

As in other countries, while the import substitution stance yielded initial growth, the limited size of the market and the inefficiencies introduced and abetted by trade restrictions eventually negated these gains. By the late 1970s, the domestic economy began to falter. Growth became dependent on continuous foreign borrowing, and external debt rose precipitously. Inflation began to climb, and GDP growth slowed measurably.

A major debt problem surfaced and reached crisis proportions in 1983. The government was forced to implement a substantial devaluation of the peso in order to stem imports and increase the competitiveness of exports. The previous exchange rate policy heavily penalized the export sector, which remained largely stagnant except for sales of garments and semiconductors. The government also acted to liberalize the trade regime by introducing export and investment incentives, to reduce the public sector deficit, and to increase banking reserve requirements to contract liquidity and cool demand. The result was negative GNP growth rates in 1984 and 1985. The beneficial impact of these "structural adjustment" measures was limited, however, due to continued corruption and lack of resolve to sustain reforms.

Upon coming to power in 1986, the Aquino administration set out to reform the policy structure. The government continues to support the private sector by undertaking structural reforms designed to foster exports and encourage investment. Notwithstanding initial progress and continued interest in these reforms, the momentum for appropriate change has slowed substantially due to political instability, financial constraints, intransigence on the part of Marcos cronies entrenched in the system, and the tendency to rely on ad hoc crisis management. For both economic and political reasons, there is a critical need to re-establish the momentum for continued reforms.

B. CONSTRAINTS TO TRADE AND INVESTMENT

The rationale for the PITO-Philippines Project rests on a series of considerations that fall into a logical sequence. Individually and collectively, these assertions provide a strong case for a set of mutually reinforcing interventions to stimulate private sector-led trade and investment in the Philippines.

1. Limited Expansion of Trade and Investment

The prospects for the Philippines to achieve long-term sustainable growth and economic progress hinges largely on the nation's ability to generate an accelerated expansion of trade and investment. The Philippine economy is far from self-sufficient, since local production and consumption levels depend on continuous imports of capital goods, components and other inputs, and consumer products. The nation has built up considerable levels of external indebtedness due to structural deficits in its balance of trade. Consequently, the economy's ability to expand output, increase levels of consumption, and service external debt obligations requires substantial foreign exchange earnings to finance imports and debt servicing obligations.

2. Poor Export Performance

The Philippines lags behind all other Association of Southeast Asian Nations (ASEAN) countries in export performance. Singapore leads the ASEAN region in export-led growth. Thailand, and to a slightly lesser extent Malaysia, have achieved a "take-off" in export growth, which has yielded major domestic economic benefits. Indonesia is following suit by undertaking needed policy reforms and actively promoting private investment and trade. Brunei remains dependent on oil exports, but its reserves are sufficient to meet the country's foreign exchange need for the indefinite future.

The Philippines has not yet joined this process for three primary reasons. First, continued political uncertainty has deterred international investors from considering and implementing new ventures. Second, policy constraints related to the heritage of an import-substitution development strategy remain in place. Finally, private entrepreneurs in the Philippines lack the "institutional infrastructure" -- information and skills necessary to exploit trade and investment opportunities effectively.

3. Unexploited Comparative Advantage

The Philippines possesses the requisites for major increases in production and exports based on true comparative advantage. The economy offers numerous assets as a foundation for trade and investment. These include an abundant pool of relatively inexpensive and relatively productive labor, potential for a wide range of exportable agricultural goods, natural resources to provide inputs for exportable products, and other endowments of resources. However, these assets to date have not been marshalled adequately.

4. Institutional Infrastructure and Commercial Policies

The project seeks to address the identified constraints of institutional infrastructure and commercial policies to support a concerted effort to expand trade and private investment. Removing the impediment of political uncertainty is beyond the scope of this project, and can only be addressed over time. The PITO-Philippines Project is intended to strengthen the institutional and policy framework that supports private enterprise. All

successful trading countries in the region and worldwide have devoted substantial efforts and resources to developing their capacities to providing promotional services to prospective traders and investors, and to analyzing, formulating and implementing appropriate economic and commercial policies. PITO-Philippines is oriented toward assisting relevant private sector entities to improve their capabilities and performance in these areas.

C. IDENTIFIED NEEDS AND OBJECTIVES

As noted in the March 1990 Philippines Assistance Strategy Statement, the overall goal of the USAID/Philippines program is "broad-based, sustainable economic growth through active partnership of the private and public sectors in fostering open and efficient markets and an open society." The Mission's strategy includes five specific objectives:

- -- A policy and institutional framework that stimulates market-based private sector growth.
- -- Open and competitive markets.
- -- Infrastructure that facilitates expanded private sector activity.
- -- More efficient delivery of essential services; and
- -- Effective and sustainable management of natural resources.

The project is designed to address the first two objectives directly. It seeks to stimulate appropriate policy reforms, to improve the nation's institutional capabilities for promoting private sector trade and investment, and to achieve open markets on the basis of competition and comparative advantage.

The Mission's strategy also includes three cross-cutting themes -- policy dialogue, the private sector and decentralization -- that apply to each of the programmatic objectives. The project directly considers each theme: it has a major policy component, is oriented toward and implemented by the private sector, and promotes decentralization through the use of three regional service centers to provide project services.

Although the Project Identification Document (PID) identified five separate project components, the number of components has been reduced to three: (1) trade and investment promotion; (2) policy analysis and problem resolution; and (3) training and technical assistance. The problems and needs addressed by each are described briefly below.

1. Trade and Investment Promotion

This component seeks to increase bilateral U.S.-Philippine trade and investment by promoting productive commercial relations. The quantity and scope of U.S. commercial ties with such countries as Thailand and Indonesia surpass those with the Philippines, despite the historically close relationship between the two countries. Promotion in this context will include three sets of activities that will attempt to overcome negative perceptions of the commercial climate in the Philippines and to increase awareness of viable opportunities for profit-making ventures. These

activities will include general promotion and assistance to prospective traders and investors; provision of relevant trade and investment information; and trade brokering.

All successful exporting countries operate networks of service centers, which vary in number according to geographic considerations. Currently, private entrepreneurs (both foreign and indigenous) interested in new ventures in the Philippines do not have access to adequate information and assistance needed for project start-ups. The project aims to fill this gap through the establishment of three service centers to serve as the foci for activities directly assisting prospective traders and investors.

Economic theory and commercial practice confirm that access to information is a critical determinant of economic growth and efficiency. The quality and dissemination of commercial information in the Philippines is poor at best, reflecting the nation's lagging performance. There is no central source of information, and local business leaders claim that inadequate information constrains them from initiating or expanding their operations. A principal aim of the project, therefore, is to improve the information base and service structure available to U.S. and Philippine entrepreneurs, in order to provide them with access to the information needed to consider, design and implement new ventures. There are several categories of required data: macroeconomic performance and trends; business operating conditions (microeconomic); legal, regulatory and procedural structures; international marketing conditions and requirements; and specific trade and joint venture opportunities.

Extensive discussions with chambers of commerce, business leaders and individual entrepreneurs indicate the conviction of private business firms that timely access to information on immediate trade and investment opportunities is a major constraint to business expansion. The model of successful small traders in Korea, Taiwan and elsewhere in the region, based on brokerage firms with outreach capacity and active referrals, is an attractive one. Indeed, project designers were urged to establish scores of competing brokering firms rather than one per project geographic region to assure maximum access to information. The project design resolves this issue by establishing three regional service centers, each with an affiliated brokering service, and charging them with an outreach function to work with and through a range of trading companies.

2. Policy Analysis and Problem Resolution

Policy-induced constraints are at or near the top of virtually all assessments of the impediments to private sector development and general economic growth in the Philippines. The adoption of appropriate economic and commercial policies is the single most important action that can be taken to improve economic performance in the Philippines. The project seeks to enhance the environment for private enterprise growth by sponsoring a series of policy analyses that will address concrete problems faced by traders and investors. These efforts will increase the voice of entrepreneurs in policy matters that affect them.

3. Training and Technical Assistance

A major constraint to enterprise development in the Philippines is the lack of appropriate skills in management and technology application. The nation faces considerable shortages of skilled middle-level managers. One project objective is to help fill this gap by providing training and technical assistance to personnel of small- and medium-sized enterprises (SMEs) in areas such as product design, packaging, standardization, and quality control measures for export ventures.

II. PROJECT DESCRIPTION

A. GOAL AND PURPOSE

The goal of the project is to contribute to sustainable long-term growth in the Philippines through the stimulation of private sector trade and investment. Indicators of goal achievement will be ten percent increases in the rate of growth of trade (exports plus imports) and foreign investment inflows related to non-traditional products above the average growth rate over the previous three years (1987 through 1989) in the three areas served.

The project purpose is to increase the level of trade and investment activities in the Philippines through (a) the provision of trade and investment promotion services; (b) the completion of policy analysis and problem resolution studies, including recommendations for reforms and implementation; and (c) the provision of training and technical assistance.

The project will place primary emphasis on trade, particularly bilateral trade between the Philippines and the United States. The project will also promote private sector investment, both indigenous and foreign. The promotion, policy, training and technical assistance activities will serve to improve the climate for private local investment and productive joint ventures between U.S. and Philippine firms. The sectoral focus will be on increased Philippine exports of nontraditional products (labor-intensive light manufactured goods, finished agricultural products, and resource-intensive manufactured goods), and expanded Philippine imports of capital equipment and other goods and services needed to augment the nation's export production base. The Cooperative Agreement will include a negative list providing that assistance will not be given for promoting the export of goods identified in the Lautenberg and Bumpers amendments as having a potentially significant impact on U.S. markets.

B. PROJECT COMPONENTS

The project consists of three interrelated, mutually-supportive components. The specific activities identified as essential to meeting the project's purposes are described below.

1. Trade and Investment Promotion

The core activity of the project is the establishment of a regional network to carry out proven techniques for promoting private trade and investment. This network will utilize existing organizations to avoid the need for "ground-up" institutional development. Project resources will be used to strengthen the institutional infrastructure and Philippine capabilities to provide direct assistance to prospective traders and investors. In line with decentralization objectives, the promotional services will be provided in three regional settings -- Davao and Cebu Cities and Metro Manila. These sites were selected because they represent the most significant trading centers in the Philippines, are experiencing significant export growth, and have the potential for significant increases in trade and investment, given natural endowments and existing infrastructure.

The focus of this component will be promoting expanded trade and investment ventures between the Philippines and the United States. Major emphasis will be placed on commercial linkages in sectors of high priority for Philippine development and in which the United States offers sufficient interest and capacity to engage in mutually beneficial ventures. On the Philippine side, these sectors include manufactures of consumer goods requiring labor-intensive production, agribusiness output, and goods which utilize and add value to resources available in the Philippines (e.g., wood and marine products). The USAID Private Enterprise Support Office (PESO) will work with the Mission's Offices of Development Resources Management, Rural and Agricultural Development and the Program Economist in planning project activities to ensure that they are carried out in consonance with the country's comparative advantage, USAID's natural resources strategy and other policy objectives. Efficient production methods will be promoted to support the objective of sustainability of the natural resources base.

The project's trade and investment promotion activities will fall under one of three subcomponents, as described below.

a. General promotion. All successful developing countries operate comprehensive promotional programs. The Industrial Development Authority in Ireland, the Economic Development Board in Singapore, the Board of Foreign Trade in Taiwan, the Korean Federation of Traders Association, and the Investment Promotion Council of the Dominican Republic are just a few of the organizations that effectively "sell" their countries as sites for trade and investment. Philippine capabilities in this area are weak. Accordingly, PITO-Philippines will support private sector-operated promotional activities aimed at stimulating new or expanded trade and investment ventures, such as the following, which draw upon the lessons learned in other countries:

-- PROMOTIONAL MATERIALS: One set of activities is the design and preparation of promotional materials (brochures, pamphlets, trade and investment guidebooks, audiovisual presentations, etc.) and the dissemination of these materials to private entrepreneurs. The materials will provide objective information on doing business in the Philippines, covering operating conditions, laws and procedures, opportunities and constraints, but highlighting the positive aspects of the business climate. To reflect the nation's commitment to private sector ventures and to indicate an emerging competitiveness vis a vis other countries in the region, the materials will be of high quality and produced in sufficient quantities to allow widespread distribution.

-- REFERRAL SYSTEM: As effective promotion programs are small in scale and draw upon existing services and resources, the development of an active referral system is critical to project success. The PITO-Philippines promotional program will work with entrepreneurs to a certain point and then refer them to other private and government entities for more detailed assistance.

A catalog of service providers -- law and accounting firms, consulting groups, trading companies, etc. -- will be prepared and offered to prospective traders and investors. The list will be updated periodically to

incorporate feedback on services provided. The project will also develop working relationships with relevant government promotion entities, primarily within the Department of Trade and Industry (DTI), the U.S. Foreign Commercial Service (FCS), and with private sector groups that can offer advice and assistance, such as the Philippine Chamber of Commerce and Industry (PCCI), regional chambers of commerce and American chambers.

In addition, the project will direct entrepreneurs to assistance offered by other USAID projects, particularly the Pre-Investment Facility, Development Training and Small Enterprise Credit Projects. In this way, the project leverages resources from other development initiatives and serves as a regional marketing system for these activities.

-- PROMOTION LINKAGES: Promoting bilateral commercial transactions requires business networks in both the Philippines and the United States. These networks will be developed through the establishment of productive promotion linkages in the United States, achieved at minimal cost by linking the project to the U.S. network created under the PITO-ASEAN Project. This network is being developed by the U.S. section of the ASEAN-U.S. Business Council (AUSBC), and includes a trade and promotion unit in Washington, D.C. as well as linkages with relevant U.S. trade and investment assistance agencies and private sector associations. PITO-Philippines will access the U.S. network, the trade and investment network operating in other ASEAN nations, and a planned AID ASEAN initiative to engage U.S. state development agencies in trade and investment promotion activities in the ASEAN region. The modalities for collaboration between PITO-Philippines and PITO-ASEAN are described later in this section.

-- TRADE AND INVESTMENT SEMINARS/MISSIONS: Seminars and missions constitute an important element of promotion, but require careful design and implementation to maximize effectiveness and minimize costs. The primary focus will be placed on seminars held in the Philippines. The project will examine the efficacy of implementing an activity such as the "Mini-Ambassador Program" operated by the American Chamber of Commerce in Thailand, in which U.S. business executives living in Thailand give promotional talks in the United States when there on business trips. The project will also undertake pre-planned actions to follow up leads generated through seminars and other promotional activities.

-- INDIVIDUAL MEETINGS: As trade and investment deals are struck at meetings between business leaders, the arrangement of individual meetings between interested Philippine and U.S. entrepreneurs will be an important part of the project. Project personnel will meet individually with prospective traders and investors, and will host meetings between buyers, sellers and potential joint venture partners. This facilitation role will be supplemented by creating a list of firms which express interest in trade transactions and joint ventures in specific product categories. This list will be developed by distributing invitations for participation to existing private sector organizations.

-- TRADER/INVESTOR ASSISTANCE: Once firms have expressed an interest in a new venture, successful promotion organizations offer an invaluable service by helping entrepreneurs work their way through the bureaucratic procedures associated with business start-ups. To a certain degree, this service will be extended through the referral system described above. However, project personnel will be prepared to inform entrepreneurs of requirements, arrange necessary meetings and provide guidance on applications. This activity will complement the project's policy component, which seeks to reduce red tape, and the training and technical assistance component, which attempts to increase business knowledge and skills.

-- OTHER PROMOTION ACTIVITIES: The best promotional programs are entrepreneurial, in that they take advantage of opportunities that arise and are not limited to planned actions. Therefore, the project will include an entrepreneurial element. For example, brochures could be distributed at business hotels and short videotapes could be placed at airports or on closed-circuit hotel systems. Pro bono promotional services could be obtained from legal, accounting or consulting firms, which produce guidebooks as a form of passive marketing, or from international firms and banks, which host seminars for traders or investors. These and similar efforts will be encouraged but approved in advance by the project implementation committees (described below) in annual or quarterly work plans.

b. Information collection and dissemination. This subcomponent addresses the expressed need in the Philippines for pertinent, up-to-date information on trade and investment conditions and opportunities. A major element of this subcomponent will be the provision of computerized database services to private sector entrepreneurs on a fee-for-service basis. PITO-Philippines will finance the installation of additional computer terminals in each of the three regional promotion centers, the acquisition of data subscription services (software) to provide inputs into the system, and limited office equipment.

In this activity, the project will leverage a systems capability developed at DTI under a United Nations Development Programme (UNDP)-funded project, which is being offered to the project's implementing organization, PHILEXPORT, free of charge. The software for this interactive computer program is fully developed, transmission linkages presently are being installed, and basic data is being entered into the system.

The project will serve as a distribution point for the system, which will provide a wide range of practical business information to entrepreneurs. In addition to a general database on operating conditions and legal and regulatory requirements, the system will include lists of buyers and sellers by detailed commodity category, as well as specific trade opportunity notices entered by Philippine commercial officers overseas. The project will contribute to this state-of-the-art system by offering outlets for business users and by acquiring access to international databases.

The information subcomponent will not be limited to the computerized system. PHILEXPORT will be charged with identifying, assessing and obtaining relevant information, both electronically and via "hard copies," from other sources, such as Reuters, Dun and Bradstreet, the World Trade Center, FCS,

and U.S. trade and corporate registers, which provide useful information for venture development.

c. Trade transaction brokering. The "match-making" of buyers and sellers is at the center of trade development. Large-scale exporters tend to deal directly with their customers, and Philippine trading companies generally focus on filling import rather than export orders. SMEs in the Philippines generally lack market intelligence on specific opportunities, and therefore face a serious constraint to export expansion. The third element of the trade and investment promotion component is an experimental, transaction-based brokerage service. A number of existing organizations have expressed interest in expanding their fee-for-service brokerage services to arrange trade transactions between Philippine and U.S. firms regardless of size, but with a developmental outreach to include SMEs.

Under this activity, PHILEXPORT will award competitively-let subcontracts or cooperative agreements with existing not-for-profit non-government organizations (NGOs) or for-profit firms in each of the three regional project areas. The selected U.S. or Philippine organizations would carry out trade deal brokering on a fee basis, perhaps under joint venture arrangements, with the intention of establishing self-financed activities by the end of the project. In order to introduce a competitive element among the three regional centers (since each would vie for brokered orders), competing firms could bid for all three regional locations but each could win the award for only one location. A financial feasibility assessment of this component is included in Annex F to this paper.

2. Policy Analysis and Problem Resolution

This component involves the preparation and dissemination of a series of studies aimed at overcoming specific policy constraints faced by traders and investors. The policy studies will identify appropriate reforms and implementation strategies. In addition, each study will be accompanied by a dissemination plan that includes outreach and advocacy activities.

Many organizations have addressed the policy structure and reform requirements in the Philippines. The World Bank and the International Monetary Fund (IMF) have provided recommendations for macroeconomic structural adjustments. The Government of the Philippines (GOP) prepared The Philippine Agenda for Sustained Growth and Development under the Multilateral Assistance Initiative/Philippine Assistance Plan, and individual donors, including USAID, have contributed to the exercise. USAID's Philippines Assistance Strategy Statement identifies constraints to sustainable economic growth, such as an overvalued exchange rate, high and uneven levels of effective protection, and problems in macro-level management.

In addition, individuals and institutes in the Philippines have produced analytical studies supporting reforms (e.g., "Investment Incentives in a Protectionist Regime: The Philippines," by John Power, 1989). Specific commercial policy constraints were identified by the ASEAN-U.S. Business Council in The ASEAN-U.S. Economic Relationship: Overcoming Barriers to Business Cooperation and by researchers and business leaders involved in the ASEAN-U.S. initiative. There is no shortage of topics that could be examined and tackled in productive policy dialogue efforts.

The studies undertaken in this component will be "applied" rather than "basic" research, offering information and recommendations or options for overcoming existing constraints. Topics for examination will be submitted by private sector project participants, DTI and USAID directly to PHILEXPORT. Research agendas will be developed in collaboration with the USAID Program Economist to assure complementarity with and avoid duplication of other policy analysis activities. PHILEXPORT can either access the services of the PITO-ASEAN research organizations (the East-West Center of the University of Hawaii and the Philippine Institute for Development Studies) or identify other U.S. or Philippine policy research entities. In the latter case, PHILEXPORT would contract for studies on a fully competitive or short-listed basis.

The project will complement corollary policy reform programs by addressing specific policy problems facing private sector traders and investors. The policy analysis component will focus on "micro" rather than "macro" issues, and will be action- and implementation-oriented. Examples of possible topics include the following:

-- Developing methods to replace discretionary approval systems with automatic, transparent procedures.

-- Investigating means to implement streamlined, "fast track" regulatory procedures for business.

-- Reducing trade policy biases against rural-based ventures.

-- Improving the efficiency and automatic nature of duty drawback systems.

-- Developing policy recommendations for increasing SMEs' access to trade financing and foreign exchange.

-- Easing constraints to the development of U.S.-Philippine joint ventures.

In addition to these concerns, the policy component will take on issues related to market access in both the United States and the Philippines. For example, a study could examine new opportunities such as practical means to access the U.S. market through the Generalized System of Preferences. Another analysis could spell out measures to ensure that sales of Philippine food products to the United States meet U.S. Department of Agriculture or Food and Drug Administration requirements. Similar studies could examine impediments facing U.S. exporters seeking to access Philippine markets. Overall, this component will apply a practical business orientation to deal with concrete problems and constraints and will complement other policy reform efforts now underway. However, activities under this component will be implemented by and for the private sector.

3. Training and Technical Assistance

Many Philippine firms, particularly SMEs, do not have sufficient knowledge and skills necessary to succeed in the competitive world trading market. This gap has been widely acknowledged, and a large facility, the Philippine Trade Training Center, was constructed with the assistance of Japan. Training

Center courses, conducted under DTI sponsorship on a fee basis, include basic business courses, trade exhibition courses, and industry-specific testing and inspection courses. Program reviews indicate that, although the quality of the courses varies considerably, the offerings do not generally meet international standards.

The Training and Technical Assistance component will offer targeted training and related technical assistance to SMEs in each regional project area on topics directly related to initiating or improving trade and investment ventures. A U.S. perspective will be given on topics such as compliance with U.S. import requirements, accessing U.S. technology, product standardization and quality control, and competitive product design and packaging. Instructors will be accessed either through Technonet-Asia (an ASEAN-based organization that will provide technical expertise and seminars under the PITO-ASEAN project), or through other Philippine or U.S. institutions which offer training and technical assistance services.

Courses will be taught at PHILEXPORT offices in Cebu and Davao, or at suitable alternative locations, and at the Philippine Trade Training Center in Manila, under PHILEXPORT sponsorship. Specific topics will be identified by participating business organizations and by the regional project implementation committees. Participants will evaluate each course at its conclusion to provide direct feedback on the quality and utility of the course material and presentation. Training for observation tours and exchange visits to either the U.S. or other appropriate countries is also contemplated.

This component will sustain itself after the project activity completion date (PACD) as SMEs learn the value of training and technical assistance and providers discover a new market for their services to SMEs outside Metro Manila.

Commodities to support the three project components will include access to computerized database information systems, limited computer hardware and office equipment. The total amount of commodities to be financed under the project is estimated at $1,000,000.

C. ORGANIZATIONAL MANAGEMENT APPROACH

The organizational structure and approach of the project has evolved considerably since its initial concept. The objectives underlying the management approach described below are as follows:

- To reduce the project management burden on USAID personnel.
- To decrease the number of management units and implementing organizations involved in the project.
- To maximize the amount of financial resources applied directly to project activities rather than for overhead or other support services.
- To rely on and strengthen existing organizations rather than build new institutions, and to avoid duplicating existing activities; and
- To establish and maintain simple, direct lines of control.

The original project concept consisted of a number of activities to be implemented by separate entities. The number of project components has been reduced from five to three and, more importantly, the design now calls for a single institution, PHILEXPORT, to implement all project components.

PHILEXPORT will serve as the project coordinator, and administration of the project will be the responsibility of PHILEXPORT management. The project will finance the services of two Filipino project staff in PHILEXPORT's central office, one of whom will be designated project manager, with the other responsible for the Metro Manila service center. The project will also fund one Filipino staff person each for PHILEXPORT's Cebu and Davao offices, who will be responsible for regional service center operations in those areas.

This approach complements the organizational structure and development of PHILEXPORT. The organization plans to merge with another export association, the Confederation of Philippine Exporters (COPE) by the end of 1990 to form a new entity -- the Philippines Confederation of Exporters Foundation, Inc. (PHILEXPORT's present name is used in this paper as merger arrangements are not yet complete.) PHILEXPORT is presently establishing regional offices in Cebu and Davao, and DTI is in the process of providing PHILEXPORT with access to DTI's trade information service. PHILEXPORT also operates a training program for trade brokers. Annex H provides a fuller assessment of PHILEXPORT's implementation capabilities.

Management guidance and technical oversight for the project will be provided by four project implementation committees, one for the overall project and one in each project region. The small regional committees will be limited to three to five individuals, with the majority from the private sector. The regional committees will meet periodically to review project progress, approve quarterly action plans, and provide guidance on future activities. This management structure is being used successfully with all current USAID private sector projects.

The overall Project Implementation Committee will be established to enlist the support of relevant private and public entities in project activities. The Project Implementation Committee will meet periodically to review the goals and activities of the Project, informally evaluate progress toward meeting project objectives, and discuss possible collaborative initiatives. Participants in this committee will be identified by the regional committees, and could include members of the Philippine Chamber of Commerce and Industry, regional chambers, American chambers, the Board of Investments-Registered Traders Association (BRETA), and other private sector groups. In addition to USAID representation, public sector members could include DTI, the National Economic and Development Authority (NEDA), and the FCS.

D. PROJECT INPUTS

USAID will enter into a cooperative grant agreement with PHILEXPORT to provide services for the project components of trade and investment promotion, policy analysis and problem resolution, and training and technical assistance (including commodity procurement). PHILEXPORT will be responsible for directly subcontracting for these services and commodities. It is expected that PHILEXPORT will issue a request for proposals and competitively obtain services of existing trade brokerage firms for implementation of trade and investment brokering and perhaps for other services for business with and outreach to SMEs. At this time it is envisioned that commodities will be procured following formal procurement procedures. The inputs to the project

include technical services for implementing the project components as well as inputs for project management services (four Filipino project staff) and for project evaluation, financial monitoring, auditing, and related services. The project will rely throughout on existing institutions for its implementation, rather than the creation of new organizations.

E. PROJECT OUTPUTS AND BENEFICIARIES

1. Project Outputs

The project is designed to produce a series of concrete outputs that enhance private sector trade and investment in the Philippines and expand productive Philippine-U.S. bilateral commercial activities. These outputs are as follows:

-- Three regional trade and investment service centers operating on a sustainable basis and providing services to private sector entrepreneurs.

-- A series of trade and investment promotion activities in the areas of general promotion, investor/trader assistance, trade brokerage services, and information collection and dissemination.

-- A series of commercial policy analyses, recommendations for appropriate reforms, and implementation strategies.

-- Traders and investors trained and provided with technical assistance in areas needed for internationally competitive ventures.

2. Beneficiaries

The primary beneficiaries of the project will be private firms and their employees in the three regional project areas. The majority of project beneficiaries will be SMEs interested in engaging in new or expanded trade and investment ventures. Larger firms will be included in the promotional and training and technical assistance services to be provided under the project, and they will also benefit from the policy reforms achieved through project efforts. Access to information and promotional materials will be available to any interested firm, but the project will actively seek out smaller firms, including firms that are owned and operated by women, wherever possible.

The beneficiaries will be principally located in the Cebu, Davao and Metro Manila regions. Approximately 50 percent of SMEs in the Philippines are located within the National Capital Region; the managers of these firms can generally be characterized as having low incomes and limited access to business development services. By focusing on agribusiness and natural resource-intensive industries, the project seeks to benefit firms through the development of viable export operations. The emphasis on labor-intensive exports also focuses gains on currently unskilled, semi-skilled and unemployed workers who could be utilized for export-oriented activities.

F. PERFORMANCE INDICATORS

The potential contributions of the three project components have been demonstrated in similar trade and investment projects. However, the services to be provided are part of a complex chain of determinants of trade and investment increases, including price competitiveness, product quality, political and macroeconomic stability, and other factors affecting supply and demand. Trends or events outside the project's scope could effectively negate positive project impact. Given the indirect nature of project interventions, its limited financial resources and geographic scope, it is necessary for performance indicators to remain realistic.

Indicators that can appropriately measure the contributions of the project to increased trade and investment activity include the following:

-- The number of inquiries and initial contacts on potential trade or investment opportunities in the Philippines that are generated at the three regional centers as a result of project funding. A baseline for the current level of inquiries will be established during the first year of the project.

-- An increase in bilateral trade activities between the Philippines and the U.S. resulting from project-funded trade and investment promotion activities of the three regional centers.

-- The number of U.S.-Philippine joint ventures facilitated by the regional centers, as measured by increases in U.S. investment in the regional project areas.

-- Progress toward self-sustainability, as measured by the percent of the regional service center budgets generated by fees for service.

-- Establishment of collaborative working relationships among U.S. and Philippine private sector organizations interested in increased bilateral commercial relations, as measured by increased numbers and dollar values of U.S.-Philippine joint venture activities.

-- The number of policy recommendations forwarded by PHILEXPORT that: (a) have been accepted by the appropriate GOP department or the Philippine Congress for action; (b) are underway; or (c) have been implemented.

-- The percentage of SMEs that receive training and/or technical assistance that (a) plan to use or (b) are using this assistance in their trade or investment transactions.

G. END OF PROJECT STATUS

By the end of the project, the following will have been achieved:

-- PHILEXPORT will take on a greater role in the area of trade promotion and will represent a strong private sector voice to government on trade issues.

-- Three regional service centers will be financially self-sufficient and providing trade and investment promotion services to 150 private entrepreneurs annually.

-- An increase over the 1986-89 average for U.S.-Philippine trade in non-traditional products in the three project regions: a 5 to 10 percent increase in Davao, and a 10 to 20 percent increase in the Cebu and Metro Manila areas.

-- A 10 percent increase over the 1986-89 average for U.S. foreign investment in the three project regions will be achieved in consonance with other USAID activities.

-- Policy studies that recommend changes to promote private sector trade and investment will have been forwarded to the GOP, and PHILEXPORT will have developed the capability and resources to continue this advocacy function.

-- A training and technical assistance resources service will have been institutionalized in PHILEXPORT.

III. PROGRAM FACTORS

A. RELATIONSHIP TO USAID STRATEGY

The proposed project is fully consistent with and, in fact, closely tracks both AID and USAID development strategies. AID policy as described in Private Enterprise Development (AID Policy Paper, 1985) places private sector growth at the center of the economic development process. In addition, Trade Development (AID Policy Paper, 1986) stresses the need to develop commercial trade on the basis of market forces and comparative advantage. The PITO-Philippines Project is oriented directly toward increasing private sector trade and related investment to the benefit of both the Philippines and the United States. The project also targets SMEs as the primary beneficiaries of interventions, in accordance with AID policy.

The design of PITO-Philippines has benefitted from the issue of the draft Trade and Investment Strategy and Operational Guidelines prepared by the Private Sector Development Office of AID's Asia, Near East and Europe Bureau (ANE). The project has been refined to conform with these guidelines, including the development of appropriate project components in government policy/regulatory reform, intermediary service and/or institutional building, and training. In addition, the project is designed to incorporate important elements of the ANE Bureau's "Open Markets/Open Societies" initiative, with a major project goal to increase the participation of the private sector in policy decisions that affect it.

As expressed in the Philippines Assistance Strategy Statement (March 1990), the overall goal of the USAID/Philippines program is to promote broad-based, sustainable economic growth through the active partnership of the private and public sectors in fostering open and efficient private sector markets. The centerpiece of USAID's development strategy is the private sector, which plays a critical productive role in the attainment of sustainable growth. The goal and objectives of the project parallel those of the USAID strategy.

The themes of policy reform, support for the private sector and decentralization cut across the USAID program. The project includes a significant policy reform component, is to be implemented by and for the private sector, and offers an approach to decentralize project activities and services to the regional level.

PITO-Philippines is intended to complete the portfolio of projects being implemented by PESO by complementing existing projects and filling an identified gap in the range of PESO activities. PESO's current projects include the Pre-Investment Facility, the private sector component of the Development Training Project, and the Small Enterprise Credit, Privatization and Rural Financial Services projects. The PITO-Philippines Project will draw upon the resources and services provided by these activities, and will provide a regional distribution network for these projects.

B. RELATIONSHIP TO GOP OBJECTIVES

The most recent statement of the GOP's development strategy is contained in the May 1989 report, The Philippine Agenda for Sustained Growth and Development. The medium term development objectives of the government include equitable distribution of income, job creation, enhancing the climate for private sector activities, limiting public sector involvement in the economy to regulatory activities or the attainment of social goals, and ensuring distribution of the benefits of growth throughout the country. The GOP's policy priorities include increasing the efficiency of the private sector through trade policy reforms, investment incentives and improved financial intermediation.

DTI is working actively to increase Philippine exports, expand the awareness of SMEs to export markets, and transfer DTI's trade information function to appropriate private sector organizations.

The project will directly address the GOP's trade and investment development priorities by assisting the development of regional trade and investment promotion capabilities, implementing appropriate commercial policy reforms, and improving the capacity of SMEs to engage in productive trade and investment ventures. The project will expand access to market and product information to reveal opportunities for market growth and improve product quality, and will lead to specific trade transactions.

C. DONOR COORDINATION

The direct provision of official development assistance to private sector beneficiaries is a relatively new undertaking in the Philippines, with the majority of current donor trade and investment activities implemented through DTI.

The development of the Philippines Trade Training Center was a major Japanese trade and investment project. This "turnkey" project provided over $25 million for the construction of the Training Center building, exhibition halls, a media soundstage, and the provision of quality control testing equipment, all of which are to be used for the promotion of Philippine exports. The project's interim evaluation suggests that the Center should be "privatized," or operated by and for the private sector, rather than as a public facility. The evaluation noted that the use of Manila as a location has limited the Center's impact outside of the capital area, and that the focus on physical assets with no provision for recurrent costs associated with training and technical assistance has hampered the Center's ability to carry out its training and testing roles.

Other donor trade and investment projects include the following:

-- The Japan External Trade Organization has financed an activity to carry out product surveys (processed fruits, furniture and cut flowers), conduct seminars and workshops, undertake selling missions to Japan and buying missions to the Philippines, and carry out an overseas market survey.

-- The European Community is offering technical assistance to design and formulate an export directory.

-- Australia, under the Australia/ASEAN Economic Cooperation Program, has provided assistance to prepare product catalogs.

-- UNDP has financed a major project to install a computer-assisted trade information network and services. The project includes software and systems development, computer hardware, telecommunications networking, and a trade information database.

-- UNDP also has funded a project to assist the Philippines to develop export products in furniture, leather goods and printing services.

-- UNDP operates a five country technical assistance project (including the Philippines) to develop export-oriented joint ventures.

-- The Netherlands has undertaken an export promotion activity which includes a supply capability survey, a product adaptation mission, a market segmentation survey, promotional activities, and workshops and seminars.

-- West Germany operates a small program of technical assistance on product development and marketing, working with the Cebu Chamber of Commerce.

-- The World Bank has funded a major study to streamline and simplify the Philippine duty drawback and exemption system.

-- The World Bank is also financing the acquisition of trade information materials and equipment to strengthen the Philippines' trade information services.

Most of these activities are small in scope and/or are oriented toward Philippine bilateral commercial relations with individual donor countries. The project implementers will review the lessons learned from these efforts. In addition, the project will utilize the Japanese-funded Philippine Trade Training Center, the information system developed under the UNDP project, and the information acquired under the World Bank project. Project activities will neither conflict with nor duplicate current undertakings by other donors, but will draw upon and complement related projects.

IV. IMPLEMENTATION PLAN

A. ROLES AND RESPONSIBILITIES

1. PHILEXPORT

PHILEXPORT, a non-stock, non-profit service organization created by Executive Order No. 992 in 1984, will serve as the project coordinator. PHILEXPORT is a private organization established to express the views of the export sector to the government on policy issues, provide export-related services, establish an integrated network for gathering and disseminating trade information, and linking with overseas trade chambers and promotion organizations. PHILEXPORT has some 465 members belonging to 12 industry sectors, and these firms collectively account for over 75 percent of total Philippine exports.

PHILEXPORT will be responsible for implementing all project components, under the general direction of the three regional project implementation committees. Project implementation responsibilities will include the preparation of annual work plans, the delivery of project services directly or through outside procurements, the maintenance of appropriate financial accounts and the preparation of required reports.

2. Project Implementation Committees

A project implementation committee will be established at each regional project site (Cebu, Davao and Metro Manila) to provide overall technical and management guidance and to oversee technical progress under the project. These committees will consist of two private sector members and one member from the Philippine government, most likely from DTI. (The committees may be expanded to five members if broader participation is deemed desirable.) The committees will meet periodically to provide advice and consent on management and technical recommendations put forward by the project coordinator. In addition, the committees will make recommendations on promotion, policy and training initiatives, and will work to ensure that their regions are receiving appropriate proportions of overall project resources.

In addition to the regional implementation committees, an overall Project Implementation Committee will be established to engage relevant private and public sector organizations in the project and to enlist the support of these entities in project activities. This committee will meet annually to review project goals and activities and to discuss collaborative initiatives. Members of the overall committee will be identified by the regional project implementation committees. Representatives could include members of PCCI, regional chambers, American chambers, BRETA, and other private sector groups. Government members could be drawn from DTI, NEDA, and the FCS.

3. GOP

DTI is expected to represent the GOP on the regional implementation committees. DTI will participate in reviewing the project's plans, activities and progress. DTI will also collaborate with PHILEXPORT in the project's

dissemination of trade information activities. NEDA is expected to serve as a member of the overall project implementation committee. Relevant GOP agencies will be called upon to participate in policy dialogue initiatives that emanate from the policy analysis and problem resolution component of the project.

4. USAID

USAID's PESO Office will have overall responsibility for monitoring the project. Assistance will be provided by other USAID offices such as the Offices of Development Resources Management, Financial Management, the Program Economist, the Legal Advisor, and the Contract Services Office. In addition, it is anticipated that AID/Washington assistance will be provided by the ANE Private Sector Development Office, the Bureau for Science and Technology, and the Private Enterprise Bureau.

The project is designed to develop a close collaborative effort between USAID/Philippines and AID's ASEAN Office. The ASEAN office is currently implementing the PITO-ASEAN Project, which serves as a model for the PITO-Philippines Project. The ASEAN project seeks to enhance the regional business climate and the appeal of the ASEAN market to U.S. businesses, promote increased trade and investment in the region and with the United States, establish an ASEAN equity capital fund with the Overseas Private Investment Corporation (OPIC) for U.S. companies seeking to invest in the region, and facilitate the transfer and commercialization of U.S. technology.

5. PITO-ASEAN Project

The PITO-ASEAN project will be able to provide the following services, through grants extended to the AUSBC, the East-West Center and Technonet-Asia:

a. AUSBC:

-- A calendar of activities listing trade and investment promotional events to be conducted annually in the ASEAN region.

-- A trade and investment partner referral system to match U.S. businesses with firms in ASEAN countries.

-- An information referral service to answer or refer inquiries from U.S. or ASEAN businesses concerning U.S. regulations or sources of technical and financial assistance.

-- An information brochure describing the services offered to business executives under the ASEAN project to encourage entrepreneurs to express their interest in entering into business with a U.S. firm.

b. East-West Center:

-- A policy analysis network consisting of an inventory of existing ASEAN sources of policy analysis skills.

-- A policy analysis agenda of economic and trade issues of interest to ASEAN countries, approved by the ASEAN Project Steering Committee on an annual basis.

-- A support mechanism that will contribute to the resolution of problems resulting from inadequate or conflicting trade and investment policies in the United States and/or in the ASEAN region.

-- Two trade and investment conferences over the life of the project, devoted to discussions of trade and investment climates and policy issues in the ASEAN region.

c. Technonet-Asia:

-- A listing of potential sources of expertise in various technologies relevant to ASEAN-wide needs.

-- A schedule of technology and product standard conferences introducing U.S. technologies applicable to conditions in ASEAN countries.

-- A clearinghouse for the referral of inquiries to U.S. technology sources.

-- Support services to help ASEAN firms meet U.S. and ASEAN standards and effective assurance programs.

-- Publications, including information on technologies of particular interest in the ASEAN region.

PITO-Philippines participants will be able to participate fully in these activities, and also to access the ASEAN equity capital fund being developed within OPIC. PITO-ASEAN activity calendars will be distributed to the PITO-Philippines team, who can determine which activities would be useful to attend. Should the PITO-Philippines project implementers decide to engage the PITO-ASEAN implementing organizations for particular assignments, the services of those entities will be obtained through subagreements between PHILEXPORT and the ASEAN organizations.

B. PROJECT MANAGEMENT

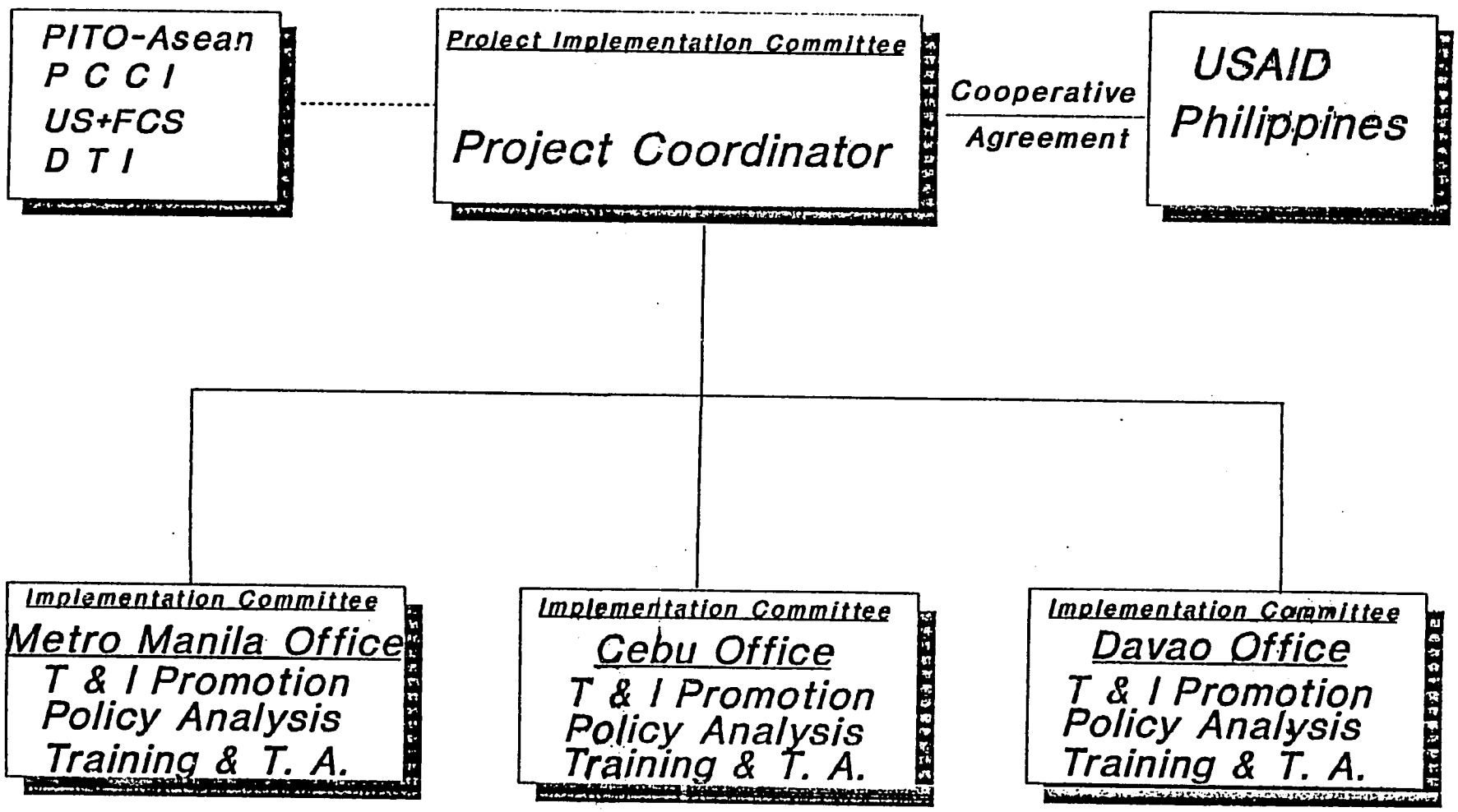
1. Management Arrangements

PHILEXPORT will serve as the project coordinator, and as such will be responsible for the administration of the project. Four qualified Filipino staff members will be recruited under the project: one to serve in PHILEXPORT's central office as the overall project manager, and one each to manage project services of the three regional service centers. In addition, management policy advice and technical oversight of the project will be provided by separate regional project implementation committees, as described earlier. These committees will meet periodically to review progress, approve quarterly action plans, and provide guidance on future activities. This committee structure is currently being used in all of USAID's private sector projects.

The project management structure is shown in the chart on the following page.

ORGANIZATIONAL STRUCTURE

Private Investment & Trade Opportunities - Philippines



2. Project Monitoring

The PHILEXPORT project staff will be responsible for day-to-day project monitoring, using as guidance two AID documents: Guidelines for Data Collection, Monitoring and Evaluation Plans for AID-Assisted Projects (AID Program Design and Evaluation Methodology Report No. 9) and A Manual to Evaluate Small-Scale Enterprise Development Projects (AID Program Design and Evaluation Methodology Report No. 6). Additional monitoring oversight will be provided by USAID's PESO staff. Financial monitoring will be conducted by staff of USAID's Office of Financial Management and/or a local consulting firm.

The PHILEXPORT monitoring procedures will include the collection of specified data by the regional service centers on a quarterly basis to determine their progress toward meeting project objectives. In addition, the central PHILEXPORT project staff will regularly (on at least a semi-annual basis) gather and analyze information to determine overall project progress in trade and investment promotion, the conduct of policy studies and implementation of study recommendations, and the provision of technical assistance and training services to participating firms. Project monitoring will include analyses of project operations, including technical, financial and accounting practices.

Examples of project management reports that may be generated include:

-- Reports and analyses of services provided by the regional centers, including the proportion of regional services that are attributable to project financing. These reports should include information on the numbers of clients served, types of services provided, and the outcome of the assistance (e.g., numbers of completed trade or investment transactions).

-- Reports and analyses of the financial operations of the regional service centers, including information on the levels of fees generated by type of service provided. The financial reports will include information on the brokerage elements of the regional service centers.

-- For the project as a whole, information on the types and levels of trade and investment promotion activities carried out, by category (general promotion, investor/trader assistance, brokerage services, and information collection/dissemination).

-- For the project, numbers of economic and commercial policy studies conducted, a listing of the subject areas, and the impact of each study (major recommendations, degree of acceptance by the concerned GOP agency and/or Philippine Congress, and policy implementation plans).

-- At the project level, collection of data on the types of training and technical assistance provided, the provider agency, basic client information, and post-training/technical assistance follow-up on the impact of these services on client production and export performance.

C. IMPLEMENTATION SCHEDULE

The implementation schedule for the project is presented below in detail for year one of the project, and at a summary level for subsequent years.

Year One	Activity	Time Frame
	DTI letter of support received	June 1990
	NEDA letter of no objection received	August 1990
	Project authorized	August 1990
	Terms of reference for project coordinator completed	August 1990
	Cooperative Grant Agreement signed	September 1990
	Implementation committees established	October 1990
	Project positions advertised	October 1990
	First meeting of implementation committees	November 1990
	Project staff hired	November 1990
	First annual work plan completed	December 1990
	Second meeting of implementation committees	December 1990
	First meeting of overall project committee	January 1991
	RFPs for brokerages issued	January 1991
	Policy analyses initiated	February 1991
	Information system installed	February 1991
	Training schedule finalized	March 1991
	General promotion activities initiated	March 1991
	Third meeting of implementation committees	March 1991
	Brokering agreements signed	May 1991
	All project components fully operational	May 1991
	Fourth meeting of implementation committees	June 1991
	Annual review of project accomplishments	August 1991
Years Two and Three		
	Implementation committee meetings	Quarterly
	Second annual work plan completed	September 1991
	Third annual work plan completed	September 1992
	Final evaluation conducted	March 1994

D. PROCUREMENT PLAN AND CONTRACTING ARRANGEMENTS

Funds are provided to support the activities of PHILEXPORT under a cooperative grant agreement. Under this agreement, PHILEXPORT will procure on a competitive basis the goods and services required to carry out the three project components. These include technical assistance and materials for general promotion, trade deal brokerage services, information databases and related computer hardware, technical assistance for policy analyses, technical assistance for training, and limited office equipment. If during project implementation specific services are desired from the PITO-ASEAN providers (i.e., AUSBC, the East-West Center, the Philippine Institute for Development Studies, and Technonet-Asia), PHILEXPORT will enter into subagreements with those entities. Procurement of evaluation and, if necessary, audit services will be by AID direct contracting procedures. The requirements for evaluation services may be satisfied through the use of a Gray Amendment-qualified firm.

E. PROCUREMENT OF GOODS AND SERVICES

As with other assistance projects in the Philippines, the authorized source and origin for the procurement of goods and services is the United States and the host country. The bulk of the goods and services to be procured for the project will be of Philippine or U.S. source and origin. However, due to the nature of the project's trade and investment activities and its linkages with the PITO-ASEAN Project, certain services, such as those of Technonet-Asia (which is based in Singapore) and certain database services are likely to be required from developed countries (AID Geographic Code 899). It is anticipated that less than $1 million of project services would be acquired from these countries. When specific requirements are identified for procurement from countries outside the authorized geographic code, a specific waiver request will be prepared for Mission consideration.

F. WOMEN IN DEVELOPMENT

Women are well represented in Philippine business activities, as both owners and workers in small- and medium-sized production firms. The distribution network is dominated by women-owned enterprises, and many women are employed in related service areas such as accounting. Improvements in technology and market linkages are expected to impact favorably on them in terms of income and employment as the project-assisted SMEs grow to take advantage of expanded trade and investment opportunities. The Cooperative Agreement will require that the project monitoring system track the provision of project services to women-owned and operated firms, project-related generation of trade and investment by such firms, and employment impact on women.

G. GRAY AMENDMENT

Positive efforts will be made by PHILEXPORT under the cooperative agreement to utilize U.S. small businesses and minority-owned businesses as sources of goods and services. Such efforts should allow these sources the maximum feasible opportunity to compete for contracts utilizing AID funds. Also, as indicated above, evaluation services may be satisfied under the project through the use of a Gray Amendment-qualified firm.

H. EVALUATION PLAN

Ongoing project progress will be continually monitored by PHILEXPORT, USAID and the overall Project Implementation Committee using the periodic project monitoring reports described above. The project budgets for an interim and final evaluation; however, the interim evaluation will be conducted only if the overall Project Implementation Committee thinks it would be useful to augment its monitoring of project implementation. Data for project monitoring and evaluation will be gathered and maintained by PHILEXPORT as part of their ongoing project management responsibilities. The final external evaluation will be accompanied by a complete financial audit.

1. Users of the Information

The major users of information generated under the project will be: the various private sector businesses and professional associations that will benefit from project services; GOP entities such as DTI and NEDA; PHILEXPORT and USAID project staff; the organizations providing project services; AID's ASEAN office and the PITO-ASEAN project participants; and other AID offices and country missions.

2. Manager's Questions

Following are the priority evaluation questions at the goal, purpose and output levels:

GOAL LEVEL: To what extent has the project contributed to increased export and firm income levels in the three regional project areas? Have new foreign investments been recorded in the three project areas? What proportion can be attributed to project-financed interventions? Have new jobs been created as a result of project activities? Approximately how many jobs have been created in each project region?

PURPOSE LEVEL: Is a self-sustaining trade and investment promotion system in place and being operated by the private sector? How has the promotion system demonstrated its capability to stimulate U.S.-Philippine commercial transactions? To what extent are the recommendations of the project-funded trade and investment policy studies being implemented? Who are the users of the studies? What concrete results have these policy reforms generated? Are the three regional service centers operating on a sustainable (fee for service) basis? To what extent have the trade and investment activities in the three project regions (measured by percent increases in U.S.-Philippine trade and U.S. foreign investment) increased as a result of project funding?

OUTPUT LEVEL: What is the overall financial status of the three regional centers? Are they capable of continued self-sustaining operations? How many clients are receiving services from the centers annually? How many and what types of trade and investment promotion activities are being carried out annually by the regional centers? By the project as a whole? How many policy studies have been completed? Are their recommendations being implemented? How many client firms have received project-funded technical assistance or training per regional center? For the project as a whole? What types of training/technical assistance have been received? What impact has the training had? Do follow-up surveys (six-month or one-year) indicate that the training has been useful? What have the participants remembered/used?

3. Key Indicators

The key methods used to answer the management questions outlined above will include a review of project documentation, including PHILEXPORT's project management reports; key informant interviews of the users of the information; interviews with the regional and overall project implementors; and interviews with members of the client firms.

I. ENVIRONMENTAL CONCERNS

An Initial Environmental Examination was completed and included in the Project Identification Document dated May 1990. That IEE recommended a categorical exclusion based on the criteria that the project provides technical assistance, training, analyses, studies, academic or research workshops and meetings. The project in its final design has not changed in its expected environmental impact and the IEE recommendation remains valid.

V. COST ESTIMATES AND FINANCIAL PLAN

A. COST ESTIMATES AND FINANCIAL PLAN

The total project cost is estimated at $13.6 million. Project resources will be provided by AID, the Philippine and U.S. private sectors and the GOP. The illustrative project budget is presented in Table V-1 as the Summary of Cost Estimates and Financial Plan. Table V-2 reflects the projections of expenditures by fiscal year. Table V-3 shows the projection of expenditures for AID grant funds by fiscal year and by project element.

1. USAID/Philippines

AID's input will be a grant to fund administrative and technical support services for PITO-Philippines, commodities, in-country training, and information and documentation services. Compensation rates, benefits and allowances will be in accordance with AID regulations and applicable USAID/Philippines practices. The project will be incrementally funded, with an initial obligation of $1.484 million in FY 1990. All obligations are subject to the availability of funds, as are AID and Philippine decisions to allocate the necessary budget for the categories contemplated in Figure V-1. Incremental funding is based upon the budget schedules and planned expenditures of funds indicated in Figure V-2 for outlying years.

Planned yearly obligations are as follows:

Fiscal Year	Amount ($000)
1990	1,484
1991	2,000
1992	3,500
1993	3,016
TOTAL	10,000

2. Philippine Sector

Support provided by the Philippine and U.S. private sectors will take several forms, including: fees paid by participants in training and technical assistance activities; membership dues paid to and in-kind contributions offered by PHILEXPORT, its members and other private sector organizations in activities such as promotional and policy workshops; local office space, materials and supplies; the salary of implementation committee members; the cost of facilities and transportation of committee members; and fees and contributions received from various fund-raising activities. Additional fees paid by firms benefitting from trade brokering services will be substantial (estimated at over $8 million per regional center if each generates a 10 percent increase in exports); however, they are not included as contributions because the level of exports that will be generated is unknown at this point. DTI's contribution of its UNDP-developed computer database service constitutes a significant GOP contribution to the project, valued at $1,350,000. Total contributions to be provided by the private sector and GOP are estimated to exceed 25 percent of total project costs.

TABLE V-1
SUMMARY COST ESTIMATE AND FINANCIAL PLAN -- ALL YEARS
($000)

PROJECT ELEMENT	AID FX	AID LC	AID TOTAL	PHILIPPINE PRIVATE SECTOR	GOP	TOTAL
1. Trade & Investment Promotion	2,300	2,100	4,400	1,395	1,350	7,145
a. Marketing	400	1,200	1,600	450	-	2,050
b. Brokering	900	900	1,800	495	-	2,295
c. Information						
-Commodities (hardware & software)	111	-	111	450	-	561
-Info access fees & other support costs	889	-	889	-	1,350 1/	2,239
2. Policy Analysis	750	750	1,500 2/	180	-	1,680
3. Training and Tech. Asst.	667	1,333	2,000 3/	360	-	2,360
4. Project Management Services	-	850	850	90	-	940
5. Evaluation, Audit and Monitoring 4/	150	100	250	-	-	250
6. Contingency	430	570	1,000	225	-	1,225
TOTAL	4,297	5,703	10,000	2,250	1,350	13,600

1/ GOP contribution is a fully-developed computerized database information service, hardware and software.
2/ Five (5) analyses per year at an estimated cost of $100,000 per analysis.
3/ Fifteen training sessions per year at $25,000 each. Technical assistance will not exceed $300,000 per year over the life of the project.
4/ This includes interim and final audits, two project evaluations, and financial monitoring and related services.

NOTE: Inflation rates used are 15% for local currency costs and 5% for dollar costs.

TABLE V-2
PROJECTION OF EXPENDITURES BY FISCAL YEAR
($000)

Fiscal Year	AID	Private Sector	GOP	Total
1991	2,462	555	1,350	4,367
1992	3,331	755	-	4,086
1993	3,221	755	-	3,976
1994	986	185	-	1,171
TOTAL	10,000	2,250	1,350	13,600

TABLE V-3
PROJECTION OF EXPENDITURES OF AID GRANT FUNDS
BY FISCAL YEAR AND BY PROJECT ELEMENT
($000)

Project Element	FY 91	FY 92	FY 93	FY 94	Total
Trade & Investment Prom.	1,098	1,468	1,468	366	4,400
- Marketing	398	535	535	132	1,600
- Brokering	450	600	600	150	1,800
- Information	250	333	333	84	1,000
Policy Analysis	375	500	500	125	1,500
Training & Tech. Asst.	525	650	650	175	2,000
Project Mgt. Services	218	280	280	72	850
Evaluation, Audit and Monitoring	0	100	0	150	250
Contingency	246	333	323	98	1,000
TOTAL	2,462	3,331	3,221	986	10,000

B. METHODS OF IMPLEMENTATION AND FINANCING

A cooperative grant agreement will be awarded to a PHILEXPORT, a not-for-profit intermediary organization, which will provide overall project management, including the award of sub-agreements for the regional trade transaction brokering services and the trade and investment promotion, technical assistance and policy studies components. The advance method of financing will be used.

Sub-agreements of the cooperative agreement totalling approximately $1.8 million will be awarded to three Philippine or U.S. organizations who will render brokering services. The awards will partially support the brokering operations until they become self-sustaining (by the end of the project). The intermediary institution will be responsible for payment of costs under these sub-agreements, which may be financed under the advance or direct reimbursement method.

The trade and investment promotion, technical assistance and policy studies components of the project will also be implemented through sub-agreements of the cooperative agreement, with the intermediary institution responsible for the payment of costs under these sub-agreements. The advance or direct reimbursement method of payment will be used. Commodities (computer hardware/software and limited office equipment) will be procured by PHILEXPORT. The advance method of financing may be used for commodity procurement. The evaluation, audit and monitoring activities will utilize AID direct contracts, and payments will be made directly to the contractors performing those services.

Table V-4 summarizes the methods of implementation and financing for the different project elements.

Table V-4
Methods of Implementation and Financing

Method of Implementation	Method of Financing	Total Cost ($000)
Intermediary Institution: AID Direct Coop. Grant Agreement	Advance	$8,750
-- Trade and Investment Promotion: Subgrant (including brokering services)	Sub-advance/ Direct reimbursement to sub-grantees	4,400
-- Policy Analysis: Subgrant	Sub-advance/ Direct reimbursement to sub-grantees	1,500
-- Training and Tech. Assistance: Subgrant	Sub-advance/ Direct reimbursement to sub-grantees	2,000

Method of Implementation	Method of Financing	Total Cost ($000)
-- Project Management Services: Subgrant	Sub-advance/Advance Direct reimbursement to sub-grantees	850
Evaluation, Audit and Monitoring: AID Direct Contract	Direct Payment	250
Contingency		1,000
TOTAL		10,000

C. RECURRENT COSTS -- SUSTAINABILITY

Any project's sustainability can be gauged on the ability of the implementing agency or agencies to finance from their own funds or other non-AID sources the recurrent costs that may be incurred after the project life. This project can be expected to be sustainable in view of the forms and levels of external funding that can be obtained by PHILEXPORT from project services and from other sources.

The trade brokering and information service subcomponents of the trade and investment promotion component are designed to be self-supporting by the end of the project. Fees will be charged for accessing both services. Financial analyses for these subcomponents are shown in Annex F to this Project Paper. In addition, fees sufficient to cover a portion of costs to be incurred will be charged for participation in the project's training and technical assistance component.

It is envisioned that costs for general management, policy analysis and problem resolution as well as for promotion and training services not covered by fees will be fully assumed by PHILEXPORT by the project's end. PHILEXPORT is currently fully self-supporting from membership dues and the operation of highly profitable bonded warehouse activities. In addition, if the Omnibus Trade Bill now under consideration is enacted, a small assessment on imports will be charged. The receipts of this assessment will be turned over to private sector organizations for the purpose of export promotion. PHILEXPORT likely will be a recipient of all or part of this continuous source of revenue. PHILEXPORT also expects to increase its membership base and hence its membership dues over the project period. Accordingly, the activities envisioned under the project should be self-sustaining either through fees generated or through PHILEXPORT's other sources of funding.

D. AUDITS

Primary responsibility for audits of AID-financed projects lies with the Regional Inspector General for Audit. However, an external auditing firm may be contracted for the purpose. In the event external audit services are required, $50,000 has been budgeted for mid-point and final non-federal audits. It is anticipated that these reviews will cover the financial and compliance aspects of the project.

VI. SUMMARY OF ANALYSES

A. TECHNICAL ANALYSIS

PITO-Philippines has significantly different objectives than the typical foreign assistance project. While it involves foreign technical assistance to some degree, the major emphasis is on strengthening the private sector, in particular creating a forum for interactive policy reform, a vehicle to promote commercial transactions with the United States, and technical training to attract foreign and domestic investment.

The feasibility of the technical approach to be followed by this project is supported by extensive interviews with potential participants, GOP agencies, various chambers of commerce throughout the country, and local business leaders. In addition, an extensive body of relevant literature was reviewed, and the experience of other countries was examined. The major design requirements that emerged from the technical analysis and the key components of the PITO-Philippines Project are discussed below.

1. Emphasis on Private Sector Participation

Discussions with executives from the public and private sectors, as well as a review of the experiences of other trade and investment promotion activities, clearly illustrates the benefits of designing this project to work hand-in-hand with the Philippine private sector. This tactic provides an opportunity for meaningful dialogue between the private and public sectors. In addition, it is perceived that this project will give the responsibility of organizing and conducting trade and investment support services to that sector which will most benefit from services to be provided under the project.

Private sector organizations will bear the responsibility for carrying out the preponderance of project activities. While USAID will provide start-up funds, the Project Coordinator must have experience in contacting private firms to provide and market the various components of the project, namely: marketing data, resource information, technical assistance, and a forum for addressing policy concerns. PHILEXPORT, the proposed Project Coordinator, possesses the institutional base and experience required.

Interviews conducted over the course of project design corroborate those found in previous studies.[1/] According to private sector respondents, an inadequate policy and institutional infrastructure is the key constraint to more rapid private sector growth in the Philippines. This can only be brought about through the concerted efforts of the private sector.

1/ The Philippine Agenda for Sustained Growth and Development, Program for the Multilateral Assistance Initiative/Philippine Assistance Program, Republic of the Philippines, May 30, 1989, and Philippines Assistance Strategy Statement, USAID/Philippines, March 1990.

2. Status of the Private Sector

The Philippine private sector has been characterized as "one of the most active and talented in the developing world."[2/] Nevertheless, it is handicapped by weaknesses in its international competitiveness; these weaknesses in turn are caused by policy-induced constraints, inadequate access to information on business opportunities, and lack of business skills related to export activities.

Other factors contribute to the negative environment in which the private sector must operate. One of the most telling is that there are relatively few medium-sized enterprises. In general, most fall into one of two categories, small-scale or large, capital-intensive firms. This gap has inhibited the production of additional exports and the creation of more jobs. Another important element is the role played by the Board of Investments (BOI). Its regulatory structure has resulted in the uncertain interpretation and implementation of investment policy, a high level of "red tape," and woefully inadequate promotional activities.

3. PITO-Philippines Promotional Network

All of the potential candidates for participation in this project were visited as part of the Project Paper design effort. Informal evaluations were made of the capacities of these organizations, based upon the size and qualifications of their staff and previous similar managerial experience. Few organizations were found to have the necessary capacity and prior experience required, and it became clear that PHILEXPORT represents the only viable candidate.

Also, it became increasingly clear that at least one individual (Filipino or American, with a preference for the former) would have to be contracted to provide the necessary link within each regional center, with said person to be paid initially by AID funds. Business leaders and government officials indicated that there are numerous highly qualified, experienced and dedicated young Filipino professionals who would serve effectively in the capacity of "Project Director" within each regional unit.

4. Approach to Providing Technical Services

Respondents interviewed were in general agreement regarding the most needed technical services. Of those services mentioned, the one consistently cited first was that of policy analysis and problem solving. Respondents felt that this was one area requiring immediate attention, and that they desperately needed a forum to carry out productive policy dialogue with appropriate authorities and through proper channels.

The second need was for more general promotional efforts and access to "real time" information on worldwide trade opportunities. The project does not include costly and time-consuming development of a computer database system. Instead, PITO-Philippines will utilize an existing database system,

---

2/ Philippines Assistance Strategy Statement, (FY 1991 - FY 1995), USAID/Philippines, March 1990, p. 19.

funded by the UNDP and designed primarily by DTI, that will provide regional access to a new interactive computer-based information system. Of the more than 2,000 individual programs available to assist with foreign trade, a UNDP study identified four that could be of particular value in the Philippines; these four are now the core of the DTI system. DTI is willing to make this service available to the private sector provided the latter is willing to pay the yearly subscription fees to the international trade information networks. However, this does not mean that other systems cannot be included. In fact, funds are budgeted for subscriptions to other databases and materials to provide additional market information. The Project Coordinator will determine what additional information is required and will add this information to the database as warranted.

The project will also call upon services offered by the PITO-ASEAN Project. One service now being considered is training and technical assistance from Technonet-Asia. Technonet, a non-profit organization with an excellent regional reputation, will provide access to U.S. and ASEAN sources of expertise. Again, the Project Coordinator will have the latitude and resources to independently source whatever technical expertise is deemed necessary. It is envisioned that initially a majority of these technical experts will be from U.S. sources.

B. ECONOMIC ANALYSIS

The analysis examines project economic viability through cost effectiveness analysis of selected components and of the overall implementation management approach, and through economic returns required to justify the trade brokering sub-component and the project as a whole.

The proposed trade transaction brokering sub-component of the Trade and Investment Promotion component appears relatively more effective than alternatives such as public sector service delivery, a nationwide network of brokerage services, a Manila-based and focused operation alone, or a single brokering firm operating in the three project areas. Similarly, the computerized information system subcomponent is more cost effective than alternatives such as creating a new database institution, and will deliver services to target beneficiaries more effectively than would a for-profit firm or a governmental institution such as DTI. The analysis also presents sufficient cost effectiveness arguments for the policy analysis and the training and technical assistance components.

The overall implementation approach, using a cooperative grant agreement with an existing non-government non-profit entity, PHILEXPORT, is a cost-effective approach because it uses an existing organization with a good track record, avoids inefficiencies endemic in public sector organizations, and avoids higher overhead charges and fees of for-profit private sector organizations. PHILEXPORT will be able to charge fees for service and establish a viable financial basis for continued service after the project ends.

Examining the regional brokering services, economic returns to recipient firms will be generated by increased revenues from increased exports by client firms, reduced costs due to increased production efficiency, reduced costs from more dependable access to quality and increased dependability of imported inputs, and increased revenues due to reduced levels of unmet orders. Consultations during project design with PHILEXPORT, chambers of commerce and

individual businessmen in the three regions as well as with relevant GOP agencies provided significant qualitative indications of the market for brokering and database services. These consultations supplemented secondary data on exports and value added which served as proxy market indicators for the project areas. However, absent specific information on firms to be assisted and exports generated, and lack of quantitative information on the relationship between trade brokering assistance and elements of beneficiary firms' income statements, it is not possible to conduct a standard economic appraisal for the brokering operations. Nevertheless, calculating and assuming equal economic costs of the centers, and using a social discount rate for the Philippines of 15 percent, the analysis shows that the brokering sub-component must achieve an annual level of benefits valued at $621,268 (or an average of $207,089 for each brokering service) for ten years to be considered an appropriate investment of project funds. This can be judged in terms of either additional income from exports or small establishments (SE) value added which should be generated to achieve the level of required benefits.

Assuming a five percent net profit (before interest and taxes) margin from export revenues, the required level of annual benefits for each brokering service represents 0.08 percent of projected net export income for Metro Manila, 0.67 percent of projected net export income for Cebu, and 1.15 percent of projected net export income for Davao in 1990, based on the current trend lines. The required annual level of benefits for each brokering firm represents 0.08 percent of 1987 regional SE value added in 1990 prices for Metro Manila, 0.69 percent for Region VII (Central Visayas) and 1.08 percent for Region XI (Southern Mindanao). If brokering activities generate an additional real annual increase in client firm incomes of these magnitudes above current trends over the next ten years, the activity is economically viable. These levels are considered easily achievable, given the buoyancy of the project areas, the small increases required, and experience with this type of service approach in other countries.

The economic benefits of the brokering sub-component may come both from transactions for existing client firms completed during the life of the project and from after-PACD additional transactions for the same firms as well as for new activities of existing and new firms. Considering the small magnitude of required real increases in client firm income from either increased exports or increased SE value added alone, the economic benefits could come easily from the brokerages' client firms served only during the life of project. Although based on the financial analysis the brokering operations appear sustainable after project completion, continued operation seems not essential to the sub-component's economic viability. The likelihood of continued operations improves economic benefits for the brokering activity and the overall project.

The analysis also examines total PITO-Philippines economic costs against economic returns from the perspective of benefits accruing to target enterprises. (The project seeks to promote expanded production and trade by SMEs, including new entrants into the exporting business.) With project economic costs of $12.5 million, and using a 15 percent social discount rate, beneficiary firms must experience an additional real increase in income of $2.5 million annually for 10 years to justify the PITO-Philippines investment. This is judged a reasonable target when compared with projected net export income and projected value-added of small firms. The required level of benefits represents only 0.81 percent of total estimated 1990 net

export income for the three brokerage areas and 0.84 percent of total 1987 value-added in 1990 prices for small enterprises of the three regions alone.

Finally, the economic analysis looks at the policy environment within which the project will operate. Given that an import-substitution bias still exists (although some policy changes have been made, and this project and USAID and other donor assistance continue to support further change), the analysis concludes that the project should work on clearly export-oriented areas, and in those areas where the Philippines has a true comparative advantage or where effective protection rates are low. Establishing such criteria will avoid using project resources inadvertently to assist protected, import-substituting industries that would not be viable without such protection.

C. FINANCIAL ANALYSIS

The financial analysis uses Internal Rate of Return (IRR) analysis to examine two sub-components of the project's Trade and Investment Promotion component, i.e., the financial profitability and sustainability of the regional trade brokering operations and the sustainability of the computerized trade information database service.

Trade Brokering Services: Separate IRR analyses were prepared for each project region, using alternative assumptions regarding brokerage fee levels and market share handled by the centers. Under all assumptions the Metro Manila brokering service shows a positive IRR, ranging from 15.5 percent with a low fee and low market share to 186.4 percent with high fee and high market share. Under any likely scenario, the Manila brokering operation can be expected to be profitable and sustainable.

The Cebu service shows negative or low rates of return if only a low share of the region's exports are handled by the brokering operation, but high rates of return (47.7 percent) with high market share. Sustainability requires capturing a medium (10 percent) to high (20 percent) market share, a target which lies within PHILEXPORT's projections.

In Davao, the least dynamic of the three regions, the trade brokering service needs to achieve a high market share (defined as 10 percent for this area) with high brokerage fee levels to be profitable, although it can break even with a medium market share and high fee structure. Since exports in Davao are dominated by SMEs, it is reasonable to expect most clients to have smaller transactions and thus pay the higher fee. (The commonly used fee structure provides for a declining fee percentage as the volume of exports for any one client increases.) This analysis indicates the project will need to give special attention to market development in the Davao and Cebu areas, in comparison with Metro Manila.

As in any business undertaking, the element of risk cannot be entirely eliminated, and any one of the brokering services might not be able to sustain its operations despite indications that all of them have a moderate chance of success. However, project success is not only measured by financial indicators; the benefits to be accrued while the brokering services are engaged in their trade activities make the risk worth taking.

Computerized Information System: This system will provide subscribers with state-of-the-art computerized information on trade and investment conditions and opportunities. IRR analysis of PHILEXPORT's computer database system is based on assumptions that, of the total existing potential clients, 20 percent of those in Manila, Cebu and Davao, 10 percent of foreign buyers and 20 percent of potential university clients (such as business schools) will subscribe to the service. The subscription rate will be scaled according to the client's ability to pay, and information access by PHILEXPORT to international trade databases is based on four hours per day.

Under these assumptions, the IRR for the information system is 8.8 percent over 10 years. The system becomes self-sustaining based on its fees in the fourth year of the project, and should be fully capable of being maintained by PHILEXPORT after the project ends. The number of subscribers is expected to increase as clients see the utility of the service, and this would reduce the subscription fees substantially.

D. SOCIAL SOUNDNESS ANALYSIS

The social soundness analysis examines the trade and investment promotion component of the project with respect to the acceptability of project activities to intended beneficiaries, whether direct and indirect benefits will likely reach the target beneficiaries, and the expected impact of the activities. Based primarily on experience in other developing countries in international business venture development, it appears that business promotion services are necessary and desired to improve the operations of entrepreneurs. Services are likely to be highly acceptable and well utilized if businessmen become aware of them and if there is a perception that services are directly responsive to business needs, but the Regional Service Centers will have to "sell" themselves as sources of such services. Small firms in particular may have difficulty in assessing the value of promotional, brokering or other information relative to the fees being assessed. The project's plan to scale fees according to firm size should help overcome any resistance among SMEs to participating in project activities.

In focusing on stimulating trade and investment activities, PITO-Philippines should have a positive impact on target beneficiaries (client firms and their employees) and to contribute to the reduction of the chronic problems of unemployment, underemployment and inadequate producer/market linkages. Unemployment and underemployment are significant concerns in the Philippines, with the labor force growing at 3.7 percent annually. The project will help create new jobs as existing companies expand their capacities, new firms are set up, and allied industries such as raw material and equipment suppliers and traders are established. The project is likely to focus heavily on agribusiness and resource-based export opportunities, which should spread benefits to farmers and others in the rural areas surrounding Davao, Cebu and Metro Manila.

Women are expected to be significant beneficiaries of the project, as they are extensively represented in business, both as owners and employees in small and medium-sized firms. Many women are employed in related service areas such as accounting, and improvements in technology and market linkages are expected to benefit such service industries.

E. ADMINISTRATIVE ANALYSIS

1. PHILEXPORT

The administrative analysis examines the institutional capacities of organizations with the potential to participate in the project, as project coordinator or in a supporting capacity. Three private organizations were identified in the Project Identification Document as possible candidates for the implementing role of project coordinator. Of these, PHILEXPORT, a non-profit service association, was found best qualified.

PHILEXFORT was established in 1984 to express the views of the export sector, provide specific services for export growth, establish a trade information network and linkages with overseas trade and promotion associations. Its 465 member firms are estimated to account for 75 percent of Philippine exports. PHILEXPORT has developed increasingly strong institutional capabilities. It fully sustains its activities through funds received from membership dues, income from bonded warehouse services, and subscriptions to its publications. Its networking includes 5,000 subscribers. PHILEXPORT is capable of carrying out all project elements, directly or through contracts or subgrants, and is the most qualified of the organizations examined.

Collaborating organizations which will play supportive roles in policy dialogue and in trade and investment promotion include PCCI, the American Chamber of Commerce and DTI. DTI will provide to the project a sophisticated computer-based marketing information system developed with UNDP funding.

2. USAID Project Management

USAID's PESO office will have overall responsibility for the project, with support from other USAID offices including the Offices of Development Resources Management, Financial Management, the Program Economist and Contract Services. PESO will monitor the direct implementation and sub-contracting activities of PHILEXPORT, and will assure close collaboration with the PITO-ASEAN project, including any links to the East-West Center and Technonet-Asia.

Consideration was given to phasing the opening of the Regional Service Centers to reduce the USAID management burden. However, to achieve the project objectives within the project life, including outreach to a significant number of SMEs outside the National Capital Region, the project design calls for operation of all three service centers from the beginning of the project. This will also facilitate achievement of sustainable regional centers within the relatively short project life of four years. As PHILEXPORT will bear the administrative burden of proposal solicitation, review, contracting and monitoring of implementation for the service centers, PESO considers it will be able to handle the project management burden.

VII. CONDITIONS, COVENANTS AND WAIVERS

A. CONDITIONS PRECEDENT AND COVENANTS

The Cooperative Agreement will provide the following as Condition Precedent to Execution of a Cooperative Agreement:

A letter of cooperation between PHILEXPORT and the Department of Trade and Industry, Bureau of Export Trade and Promotion, will provide for the UNDP and other computer database systems which DTI is to contribute to the project.

Covenants will provide for:

Timely creation of overall and regional Project Implementation Committees; and

Establishment of a comprehensive management information and monitoring system and evaluation procedures.

B. WAIVERS

No waivers are requested at this time. As discussed in section IV.E., procurement of some services from Geographic Code 899 countries may be necessary. Specific waiver requests will be prepared as specific needs are identified.

ANNEX A. LOGICAL FRAMEWORK

AID 1020-28 (1-73)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: Private Investment & Trade Opportunities - Philippines (492-0449)

Life of Project:
From FY 90 to FY 93
Total U. S. Funding $9,000,000
Date Prepared: May 25, 1990

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1) To contribute to long-term economic growth in the Philippines through the development of private sector trade and investment.	**Measures of Goal Achievement: (A-2)** - 10% increased export levels in sectors/regions of project focus. -- 12 new foreign investments approved and recorded. -- 3,000 new jobs created.	**(A-3)** -- PHILEXPORT records. --Other GOP economic reports. --U.S. Foreign Commercial Service records	**Assumptions for achieving goal targets: (A-4)** -- GOP policies favoring an active private sector role in national economic growth will continue. -- Political environment and peace and order conditions remain stable. -- Private sector efforts will continue after USAID project has ended.
Project Purpose: (B-1) To establish a mechanism to increase trade and investment activity in the Philippines through promotional services and assistance, training and TA, and policy analysis and reform.	**Conditions that will indicate purpose has been ~~achieved~~ End-of-Project status. (B-2)** -- Three regional service centers will be financially self-sufficient and providing trade and investment promotion services to 150 private entrepreneurs annually. -- U.S.-Philippine trade increases in project areas over 1986-89 average: Manila & Cebu - 10-20%; Davao - 5-10%. -- U.S. investment up 10% in project areas. 12 policy recommendations forwarded to GOP. -- Training and TA service institutionalized in PHILEXPORT.	**(B-3)** -- Monitoring of government policy reforms. -- Periodic project reports. -- Trade and investment statistics from project areas.	**Assumptions for achieving purpose: (B-4)** -- GOP will act on trade and investment policy recommendations. -- Regional service centers are able to become self-sustaining.
Project Outputs: (C-1) 1. Three regional trade and investment centers are operating on a sustainable basis and providing services to private sector entrepreneurs. 2. A series of trade and investment promotion activities in the areas of general promotion, investor/trader assistance, T & I brokering services, and information collection and dissemination. 3. Economic/commercial policy analyses, recommendations for appropriate reforms, and implementation strategies. 4. Traders and investors trained or receive TA in areas such as marketing, quality control, accessing technology, and product design and packaging.	**Magnitude of outputs: (C-2)** 1. 100 percent of Regional Service Center budget generated by fees for service. 2. 12 joint ventures facilitated. 3. 900 trade transactions facilitated. 4. 12 policy studies completed and recommendations forwarded to GOP. 5. 300 client firms receive TA or training.	**(C-3)** -- Reports of three ASEAN grantees. -- Records and progress reports of PITO-P grantees. -- Ongoing project monitoring. -- AmCham records. -- PCCI records.	**Assumptions for achieving outputs: (C-4)** -- Grantee will be able to recruit and/or train qualified staff. -- Grantee will develop an equitable, sustainable fee-for-service structure. -- Demand exists among traders and businesses in project areas for the expertise and services to be provided by grantee. -- PITO-P project can access required services from the ASEAN grantees.
Project Inputs: (D-1)	**Implementation Target (Type and Quantity) (D-2)**	**(D-3)** -- Financial records. -- Periodic grantee reports. -- Independent audits.	**Assumptions for providing inputs: (D-4)** -- Availability of AID funds over the life of the project.

	(US $000) AID	PHILIPPINES	TOTAL
1. Trade and Investment Promotion	4,400	1,550	5,950
a. Marketing	1,600	500	2,100
b. Brokering	1,800	550	2,350
c. Information	1,000	1,250	2,250
2. Policy Analysis	1,500	200	1,700
3. Training and Tech. Asst.	2,000	400	2,400
4. Project Management Services	850	100	950
5. Evaluation, Audit and Monitoring	250	-	250
6. Contingency	1,000	-	1,000
TOTAL	10,000	3,600	13,600

ANNEX B. GOP LETTER OF NO OBJECTION

REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
NEDA sa Pasig, Amber Avenue, Pasig, Metro Manila

Cable Address: NEDAPHIL
P.O. Box 419, Greenhills
Tels. 673-50-31 to 50

AUG 21 1990

Mr. Malcolm Butler
Mission Director
USAID Manila

Dear Director Butler:

We wish to inform you that the Government of the Philippines (GOP) finds the proposed Private Investment and Trade Opportunities-Philippines Project (PITO-P) supportive of its thrusts to strengthen the participation of Non-Government Organizations (NGOs) in the development process, to expand trade and investment opportunities through the provision of promotional services, training and technical assistance and to promote country-side agro-industrial development through the establishment of regional trade/service centers.

In view thereof, the GOP interposes no objection to the implementation of the above-mentioned project and to the initial obligation to the project of around $1.484 million (out of its $9.0 million life-of-project funding) from FY 1990 Development Assistance funds. The GOP, likewise, interposes no objection to the implementation of the project by the Philippine Exporters Foundation (PHILEXPORT) or by any other NGO found equally qualified to implement the project.

We wish, however, to put forward for USAID's consideration, the GOP's comments (details attached) on the following aspects of the proposed project design:

1. Effect of the Lautenberg and Bumpers Amendments to the promotion of priority Philippine export products through the project;

2. Project's coverage of potential exporters to enable them to get into the mainstream of the export industry;

3. Adoption of measures to encourage SME participation in the transaction brokering activity and to ensure viability/sustainability of the endeavor;

4. Public sector participation in the development of the research agenda under the Policy Analysis and Problem Resolution Component;

5. Harnessing of existing government and/or private sector training institutions for the Training Component;

6. Government participation in the Project Implementation Committees; and,

7. Clarification on the GOP counterpart contribution (in-kind) to the project.

We will be prepared to further discuss the above comments with your Staff as and when required.

Thank you for your continued support.

Very truly yours,

CAYETANO W. PADERANGA, JR.
Secretary of Socio-Economic Planning
and Director-General

for USAID

COMMENTS ON THE USAID PROJECT PROPOSAL ENTITLED "PRIVATE INVESTMENT AND TRADE OPPORTUNITIES - PHILIPPINES (PITO

ITEM	COMMENTS
On the Product Coverage of the Project	
The last sentence of para 3 on page 1 states that the Cooperative Agreement will have a negative list providing that assistance will not be given for promoting the export of goods identified in the Lautenberg and Bumpers amendments as having a potentially significant impact on the U.S. markets.	As explained by USAID, the Lautenberg amendment provides that direct foreign assistance by the U.S. government cannot be given for the promotion of certain agricultural exports from other countries which have a significant impact on the U.S. markets, while the Bumpers amendment similarly prohibits the extension of U.S. assistance for the promotion of export products such as garments and footwear. However, it was also explained that the PITO-P project is designed in such a way that would not involve direct USAID funding to local exporters/ investors since this would be coursed through the Philippine Exporters Foundation (PEF), hence, the effect of the two amendments would have been diluted. This notwithstanding, there is a need to get an assurance from USAID that application of the Lautenberg and Bumpers amendments, as well as other U.S. trade/foreign aid laws, would not impose constraints on the promotion of priority Philippine export products through the PITO-P project.
On the Trade and Investment Promotion Component	
The core activity of this component would be the setting up of regional centers in Metro Manila, Cebu and Davao which will undertake trade and investment promotion activities, specifically, through the design and production of promotional materials, networking with government and private sector entities both in the Philippines and the U.S. (through the PITO-ASEAN), conduct of trade and investment seminars/missions,	While this appears to duplicate on-going similar or related activities of the DTI and the private sector, notably, PEF, both agencies have expressed the view that there is still a need for this kind of assistance to complement their efforts, especially at the regional level. The NEDA Secretariat likewise considers this component to be acceptable. However, it is suggested that efforts to

arranging business meetings between interested buyers and sellers, and facilitating burcaucratic procedures. Priority will be given to the promotion of non-traditional exports produced by small and medium-scale industries which are labor and resource-intensive.

aid potential exporters to get into the mainstream of the export industry on their own be included as a way of developing their marketing capabilities. Moreover, trade and investment promotion activities under the project should not be limited to the U.S. market but should eventually cover other countries as well.

On the Information Collection and Dissemination Component

Under this component, PEF will be given free access to the DTI-BETP data bank developed under a UNDP-funded project and the information gathered will be made available to private sector entrepreneurs through computerized database services to be offered at the regional service centers on a "fee-for-service" basis. In effect, PEF will be marketing the data being collected by the BETP to assist in the dissemination thereof.

The DTI-BETP is in full support of this proposal although it has qualified that the free access of PEF to its on-line data bank shall be granted with the understanding that the PEF shall shoulder the full cost of database subscriptions required by the BETP during the three-year life of the project.

The NEDA Secretariat also supports this component as it will not only bring about maximum utilization of BETP's foreign-assisted computerization projects, but will also expose local exporters to current state-of-the-art technology in doing business. Service fees to be charged by the regional centers, should, however, not be prohibitive for the SMEs in order not to discourage them from making use of the system.

On the Trade Transaction Brokering Subcomponent

This subcomponent is an experimental, transaction-based brokerage service which will involve the match-making of buyers and sellers. Under this activity, PEF will award contracts or cooperative agreements for "fee-for-service" brokerage services to NGOs, preferably RP-US joint ventures in each of the three (3) regional project areas. Contracts for brokerage services will be awarded to different organizations for each of the regional centers instead of to only one firm, or even to PEF itself, to avoid dilution of focus in the service centers

Trade transaction brokering is an innovative idea that is worth considering. Two areas of conern however, are: (a) how to encourage or ensure SMEs' participation in such an activity; and (b) how to ensure the viability/sustainability of the endeavor. Underlying these concerns is the pricing policy to be adopted by the brokerage firms in order to make their services attractive, especially to SMEs, and at the same time give them a reasonable margin of profit that woul allow them to continue their operations even after the end of the

and, in the case of PEF, a possible conflict of interest.	project. Relatedly, the criteria for awarding of contracts/cooperative agreements for trade brokering services in the regional service centers should be firmly established to ensure that firms to be selected shall be committed to achieve the goals/objectives of the project. Brokering services to be made available should not be limited to matching of buyers and sellers between the Philippines and the U.S., but should eventually cover other countries as well.
On the Policy Analysis and Problem Resolution Component	
This component involves the subcontracting of policy studies aimed at overcoming specific policy constraints faced by traders/investors to selected local research institutions. The research agenda of each regional service center will be developed by private sector participants in collaboration with USAID and PEF, with the full costs to be borne by the project. The component also involves the "buying-in" to the services of the PITO-ASEAN research organizations (East-West Center of the University of Hawaii, PIDS).	The proposal to undertake "applied" research studies on issues constraining trade and investments may be endorsed particularly since the private sector will be proposing the research agenda and thus will be attuned to its needs. However, the public sector through the DTI and/or NEDA, either through their regional offices or participation in the Overall Implementation Committee, should be included in the development of the research agenda for each regional service center to avoid duplication and/or promote complementarity with other similar projects.
On the Training and Technical Assistance Component	
This component offers targetted training and related technical assistance to SMEs in each regional project area on topics directly related to initiating or improving trade and investment ventures. A U.S. perspective will be given on topics such as compliance with U.S. import requirements, accessing U.S. technology, product standardization and quality control and competitive product design and packaging.	This component is acceptable since local exporters need to have trainings in international standards of quality control, product design, materials testing, market research and development. However, there sould be an assurance that SMEs will be given more opportunities to participate in the training programs relative to the large firms. Also, while having a U.S. viewpoint is welcome at the early stage of the project, training activities should eventually be geared towards accessing other markets. Existing government and/or

	private sector training institutions should be harnessed for the purpose. If necessary, technical assistance should be extended to the participating training institutions to upgrade their course offerings and/or trainors and/or training facilities and equipment.
On the Organizational Management Approach	
The USAID will enter into a Cooperative Agreement with PEF to implement all the project components. This is so because it is deemed that PEF is less constrained by bureaucracy to undertake the project's activities and that since it is a private sector association with wide membership, it will be subject to greater accountability to the beneficiaries who could be its own members or members of affiliate trade associations.	The designation of PEF as the implementing agency is in line with the present thrust of making the private sector ... the engine of growth. PEF has not only expressed its interest to undertake the project, but has also provided information to show that it has the capability to do so in terms of organizational structure, funding and experience along similar or related activities.
On the Project Implementation Committees	
Management guidance and technical oversight for the project will be provided by four (4) project implementation committees, one for the overall project and one in each project area. The regional committees, to be composed mostly of private sector representatives, will meet periodically to review project progress, approve quarterly action plans and provide guidance on future activities. On the other hand, the overall project implementation committee, which will be composed of participants to be identified by the regional committees (which could include members of the PCCI, regional chambers, American Chamber of Commerce, BOI-registered traders associations, USAID, DTI, NEDA and the U.S. Foreign Commercial Service), will meet annually to review the goals and activities of the project, evaluate its progress, and discuss possible collaborative initiatives.	It is suggested that representatives from the DTI and the NEDA be included in all the committees to ensure that public sector concerns are considered, notably: (a) that the development and promotion of priority export industries under the project are attuned to the region's development plan; and (b) that the development of the region's research agenda is such that it would be able to contribute to the over-all socio-economic well being of the nation. Representatives of DTI and NEDA in the regional committees could come from their regional offices. It is further suggested that a linkage between the overall project implementation committee and the PITO-ASEAN Steering Committee be established to facilitate coordination between the regional and the national project.

On the Performance Indicators	
Suggested indicators to measure the contributions of the project to increased trade and investment activity include the following: (a) the number of inquiries and initial contacts on potential trade and investment opportunities in the Philippines that are generated at the regional service centers as a result of the project funding. (b) an increase in RP-US bilateral trade activitie (c) the number of RP-US joint ventures facilitated by the regional centers (d) increase in US investment in the regional project areas (e) the number of policy recommendations submitted by PEF that have been (i) accepted by the Philippine government for action; (ii) are underway or (c) have been implemented (f) the percentage of SMEs that receive training and/or technical assistance	The suggested performance indicators appear to be reasonable and may be accepted in principle, subject to the specifics thereof, particularly with regard to the quantitative targets that will be established. The setting of quantitative performance indicators may be considered critical if the release of project funds, which has not been explained in the project description, is to be based on compliance therewith. There is also a need to clarify the base figure/s to be used against which to measure the expected goal achievement of a 10 percent in the rate of growth of trade and investment inflows (para 1, p.1).
On the Cost of the Project	
The PITO-P involves a funding of US$ 5-10 million from USAID to be provided over a life span of 3-4 years. However, because of the "fee-for-service" nature of the services that will be provided to the private sector, it is expected that the project will be self-sustaining starting from the 6th year of its implementation. Local costs include private sector contributions to the project as well as an additional GOP contribution in the amount of US$ 1.05 million as stated on page 7 of the Economic Analysis for the Project.	As mentioned above, PEF has indicated that it has the means to provide counterpart contributions for the implementation of the project. Meanwhile, with regard to the GOP contribution, the USAID has clarified that this does not refer to any additional cash outlay on the part of the GOP but to contributions in kind, such as the free access to the data bank of the BETP. This position should be made clear in the Project Agreement.

PRIVATE INVESTMENT AND TRADE OPPORTUNITIES -- PHILIPPINES
NEDA COMMENTS AND USAID RESPONSE

1. PRODUCT COVERAGE

NEDA Comment: The last sentence of paragraph 3 on page 1 states that the Cooperative Agreement will have a "negative list" providing that assistance will not be given for promoting the export of goods identified in the Lautenberg and Bumpers amendments as having a potentially significant impact on the U.S. markets.

As explained by USAID, the Lautenberg Amendment provides that direct foreign assistance by the U.S. government cannot be given for the promotion of certain agricultural exports from other countries which have a significant impact on the U.S. markets, while the Bumpers Amendment similarly prohibits the extension of U.S. assistance for the promotion of export products such as garments and footwear. However, it was also explained that the PITO-Philippines Project is designed in such a way that would not involve direct USAID funding to local exporters/investors since this would be coursed through the Philippine Exporters Foundation (PEF), hence, the effect of the two amendments would have been diluted.

This notwithstanding, there is a need to get an assurance from USAID that application of the Lautenberg and Bumpers amendments, as well as other U.S. trade/foreign aid laws, would not impose constraints on the promotion of priority Philippine export products through the PITO-Philippines Project.

USAID Response: The USAID position is that the provisions of the Bumpers and Lautenberg Amendments will apply to activities funded under this project. The Cooperative Agreement with PEF is being revised to include a specific list of items grown or produced for export purposes for which A.I.D. funding shall not be used.

2. TRADE AND INVESTMENT PROMOTION COMPONENT

NEDA Comment: The core activity of this component would be the setting up of regional centers in Metro Manila, Cebu and Davao which will undertake trade and investment promotion activities, specifically, through the design and production of promotional materials, networking with government and private sector entities both in the Philippines and the U.S. (through the PITO-ASEAN Project), conduct of trade and investment seminars/missions, arranging business meetings between interested buyers and sellers, and facilitating bureaucratic procedures. Priority will be given to the promotion of non-traditional exports produced by small- and medium-scale industries which are labor- and resource-intensive.

a. While this appears to duplicate on-going similar or related activities of the Department of Trade and Industry (DTI) and the private sector, notably, PEF, both agencies have expressed the view that there is still a need for this kind of assistance to complement their efforts, especially at the regional level.

USAID Response: N/A.

b. NEDA Comment: The NEDA Secretariat likewise considers this component to be acceptable. However, it is suggested that efforts to aid potential exporters to get into the mainstream of the export industry on their own be included as a way of developing their marketing capabilities.

USAID Response: The special concern of the project will be to assist small, beginning exporters to gain access to the international market, and for existing small exporters to expand or diversify their products and markets. The promotional and marketing materials will include "do-it- yourself" information for potential exporters who do not otherwise require project assistance.

c. NEDA Comment: Trade and investment promotion activities under the project should not be limited to the U.S. market but should eventually cover other countries as well.

USAID Response: While the U.S. is one principal market destination, other international markets, including the ASEAN countries, will be explored as part of the project's market diversification efforts.

3. INFORMATION COLLECTION AND DISSEMINATION COMPONENT

NEDA Comment: Under this component, PEF will be given free access to the DTI Bureau of Export Trade Promotion (BETP) data bank developed under a UNDP-funded project and the information gathered will be made available to private sector entrepreneurs through computerized database services to be offered at the regional service centers on a "fee-for-service" basis. In effect, PEF will be marketing the data being collected by the BETP to assist in the dissemination thereof.

a. The DTI-BETP is in full support of this proposal although it has qualified that the free access of PEF to its on-line data bank shall be granted with the understanding that the PEF shall shoulder the full cost of database subscriptions required by the BETP during the three-year life of the project.

USAID Response: As part of the PITO Project, PEF will shoulder the costs of the required database subscriptions over the life of the project.

b. NEDA Comment: The NEDA Secretariat also supports this component as it will not only bring about maximum utilization of BETP's foreign-assisted computerization projects, but will also expose local exporters to current state-of-the-art technology in doing business. Service fees to be charged by

the regional centers should, however, not be prohibitive for small- and medium-sized enterprises (SMEs) in order not to discourage them from making use of the system.

USAID Response: The charges for the information services will be based on market rates. The information services will initially be made available to large Philippine manufacturers/exporters to widen the information base and consequently to lower the cost of the information system for the small- and medium-sized exporters.

4. TRADE TRANSACTION BROKERING SUBCOMPONENT

NEDA Comment: This subcomponent is an experimental, transaction-based brokerage service which will involve the match-making of buyers and sellers. Under this activity, PEF will award contracts or cooperative agreements for "fee-for-service" brokerage services to non-government organizations (NGOs), preferably Philippine-U.S. joint ventures in each of the three (3) regional project areas. Contracts for brokerage services will be awarded to different organizations for each of the regional centers instead of to only one firm, or even to PEF itself, to avoid dilution of focus in the service centers and, in the case of PEF, a possible conflict of interest. Trade transaction brokering is an innovative idea that is worth considering. Areas of concern however, are:

a. How to encourage or ensure SMEs' participation in such an activity.

USAID Response: The brokering services are intended primarily for small- and medium-sized exporters who do not have the marketing network to directly access international markets. A requirement to this effect will be made part of PEF's agreements with the brokering firms.

b. NEDA Comment: How to ensure the viability/sustainability of the endeavor.

USAID Response: As part of project development, financial and economic analyses of the brokering services were conducted to assess their expected level of profitability and potential for sustainability. The conclusion is that the three brokerage centers are capable of achieving positive internal rates of return and of being self-sustaining after the project ends.

c. NEDA Comment: Underlying these concerns is the pricing policy to be adopted by the brokerage firms in order to make their services attractive, especially to SMEs, and at the same time give them a reasonable margin of profit that would allow them to continue their operations even after the end of the project.

USAID Response: The brokering firms will operate on a "fee-for-service" basis, and will earn incomes ranging from one to five percent of successful trade transactions. These are rates established by the market and in use in the Philippines today. Each firm will set and be expected to achieve specific transaction targets in order to ensure profitability and sustainability.

d. NEDA Comment: Relatedly, the criteria for awarding of contracts/cooperative agreements for trade brokering services in the regional service centers should be firmly established to ensure that firms to be selected shall be committed to achieve the goals/objectives of the projects.

USAID Response: The request for proposals and the agreements with the brokering firms will specifically cite project objectives which the firms will be expected to accomplish. Performance will be reviewed periodically to ensure compliance.

e. NEDA Comment: Brokering services to be made available should not be limited to matching of buyers and sellers between the Philippines and the U.S., but should eventually cover other countries as well.

USAID Response: The intent of the project is to develop Philippine-U.S. and Philippine-ASEAN trade, which will lead the way for a broader trading pattern for the country.

5. POLICY ANALYSIS AND PROBLEM RESOLUTION COMPONENT

NEDA Comment: This component involves the subcontracting of policy studies aimed at overcoming specific policy constraints faced by traders/investors to selected research institutions. The research agenda of each regional service center will be developed by private sector participants in collaboration with USAID and PEF, with the full costs to be borne by the project. The component also involves the "buying-in" to the services of the PITO-ASEAN research organizations (East-West Center of the University of Hawaii, Philippine Institute for Development Studies).

The proposal to undertake "applied" research studies on issues constraining trade and investments may be endorsed particularly since the private sector will be proposing the research agenda and thus will be attuned to its needs. However, the public sector through the DTI and/or NEDA, either through their regional offices or participation in the overall Implementation Committee, should be included in the development of the research agenda for each regional service center to avoid duplication and/or promote complementarity with other similar projects.

USAID Response: DTI and/or NEDA will be able to participate in the development of the research agenda through participation in the regional and/or overall Project Implementation Committees.

6. TRAINING AND TECHNICAL ASSISTANCE COMPONENT

NEDA Comment: This component offers targetted training and related technical assistance (TA) to SMEs in each regional project area on topics directly related to initiating or improving trade and investment ventures. A U.S. perspective will be given on topics such as compliance with U.S. import requirements, accessing U.S. technology, product standardization and quality control and competitive product design and packaging.

This component is acceptable since local exporters need to have trainings in international standards of quality control, product design, materials testing, market research and development.

a. However, there should be an assurance that SMEs will be given more opportunities to participate in the training programs relative to the large firms.

USAID Response: Small- and medium-sized companies will be given priority for training and TA activities, although large firms will not be precluded from participation. SMEs will be charged based on their ability to pay, while large firms must pay the full cost.

b. NEDA Comment: Also, while having a U.S. viewpoint is welcome at the early stage of the project, training activities should eventually be geared towards accessing other markets.

USAID Response: The project's focus is expansion of Philippine trade.

c. NEDA Comment: Existing government and/or private sector training institutions should be harnessed for the purpose.

USAID Response: Only existing training or TA institutions will be used. To the extent possible, the selection of training and TA institutions will be accomplished through open competition to ensure that the selection process considers all available training facilities from the government and the private sector.

d. NEDA Comment: If necessary, technical assistance should be extended to the participating training institutions to upgrade their course offerings and/or trainors and/or training facilities and equipment.

USAID Response: It is not the intent of the project to strengthen training institutions. Activities of this nature will be considered on a case-by-case basis and approved by the USAID project management.

7. ORGANIZATIONAL MANAGEMENT APPROACH

NEDA Comment: USAID will enter into a Cooperative Agreement with PEF to implement all the project components. This is so because it is deemed that PEF is less constrained by bureaucracy to undertake the project's activities and that since it is a private sector association with wide membership, it will be subject to greater accountability to the beneficiaries who could be its own members or members of affiliate "trade associations."

The designation of PEF as the implementing agency is in line with the present thrust of making the private sector the engine of growth. PEF has not only expressed its interest to undertake the project, but has also provided information to show that it has the capability to do so in terms of organizational structure, funding and experience along similar or related activities.

USAID Response: N/A.

8. PROJECT IMPLEMENTATION COMMITTEES

NEDA Comment: Management guidance and technical oversight for the project will be provided by four (4) project implementation committees, one for the overall project and one in each project area. The regional committees, to be composed mostly of private sector representatives, will meet periodically to review project progress, approve quarterly action plans and provide guidance on future activities. On the other hand, the overall project implementation committee, which will be composed of participants to be identified by the regional committees (which could include members of the Philippine Chamber of Commerce and Industry (PCCI), regional chambers, American Chamber of Commerce, Board of Investments (BOI) - registered traders associations, USAID, DTI, NEDA and the U.S. Foreign Commercial Service), the goals and activities of the project, evaluate its progress, and discuss possible collaborative initiatives.

a. It is suggested that representatives from the DTI and the NEDA be included in all the committees to ensure that public sector concerns are considered, notably: (i) that the development and promotion of priority export industries under the project are attuned to the region's development plan; and (ii) that the development of the region's research agenda is such that it would be able to contribute to the over-all socio-economic well being of the nation. Representatives of DTI and NEDA in the regional committees could come from their regional offices.

USAID Response: The representation of DTI and/or NEDA at the regional and overall project levels is part of the project design.

b. NEDA Comment: It is further suggested that a linkage between the overall project implementation committee and the PITO-ASEAN Steering Committee be established to facilitate coordinating between the regional and the national project.

USAID Response: The project design calls for representation from the PITO-ASEAN standing committee on PITO-Philippines' overall Project Implementation Committee, as represented by the Philippine Chamber of Commerce and Industry and/or the American Chamber of Commerce of the Philippines.

9. PERFORMANCE INDICATORS

NEDA Comment: Suggested indicators to measure the contributions of the project to increased trade and investment activity include the following:

a. The number of inquiries and initial contacts on potential trade and investment opportunities in the Philippines that are generated at the regional service centers as a result of the project funding.
b. An increase in Philippine-U.S. bilateral trade activities.
c. The number of Philippine-U.S. joint ventures facilitated by the regional centers.
d. Increase in U.S. investment in the regional project areas.
e. The number of policy recommendations submitted by PEF that have been (i) accepted by the Philippine Government for action; (ii) are underway or (iii) have been implemented.
f. the percentage of SMEs that receive training and/or technical assistance.

a. NEDA Comment: The suggested performance indicators appear to be reasonable and may be accepted in principle, subject to the specifies thereof, particularly with regard to the quantitative targets that will be established. The setting of quantitative performance indicators may be considered critical if the release of project funds, which has not been explained in the project description, is to be based on compliance therewith.

USAID Response: The release of operational funds to PEF is not conditioned on project performance. However, should routine project monitoring and the interim project evaluation reveal that the project is experiencing difficulty reaching its end-of-project performance indicators, corrective measures will be implemented so that the project objectives will be reached by the end of the project life.

b. NEDA Comment: There is also a need to clarify the base figures to be used against which to measure the expected goal achievement of ten percent in the rate of growth of trade and investment inflows (para 1, p. 10).

USAID Response: USAID will utilize DTI and/or NEDA baseline data by region for the measurements proposed.

10. COST OF THE PROJECT

NEDA Comment: PITO-Philippines involves funding of US$ 5 - 10 million from USAID to be provided over a life span of 3-4 years. However, because of the "fee-for-service" nature of the services that will be provided to the private sector, it is expected that the project will be self-sustaining starting from the 5th year of its implementation. Local costs include private sector contributions to the project as well as an additional GOP contribution in the amount of US$ 1.05 million as stated on page 7 of the Economic Analysis for the project.

As mentioned above, PEF has indicated that it has the means to provide counterpart contributions for the implementation of the project. Meanwhile, with regard to the GOP contribution, the USAID has clarified that this does not refer to any additional cash outlay on the part of the GOP but to contributions in kind, such as the free access to the data bank of the BETP. This position should be made clear in the Project Agreement.

USAID Response: The GOP contribution of $1.35 million in the project budget represents the UNDP grant to the Bureau of Export Trade Promotion for the installation of the computerized information system, to which PEF will have full access. The recurrent costs of the database will initially be funded under the PITO-Philippines Project, with the understanding that the system should be self-sustaining by the end of the project. As there is no formal Project Agreement with the GOP, this understanding will be included in the Cooperative Agreement with PEF.

ANNEX B

REPUBLIC OF THE PHILIPPINES
KAGAWARAN NG KALAKALAN AT INDUSTRIYA
(Department of Trade and Industry)
Trade and Industry Building
361 (Buendia) Sen. Gil J. Puyat Avenue
Makati, Metro Manila, Philippines 3117

Cable Address MTI
Telex 14830 MTI PS
45466 MOT PS
45467 MOT PS

Tel. No. 818-57-05 to 35
P.O. Box 2303, Makati Commercial Center

09 July 1990
RO-AME:09.07.90/L

Ms. Carol Guina
Deputy Director General
National Economic and
Development Authority
Amber Avenue, Pasig
Metro Manila

Subject: Private Investment and Trade Opportunities-Philippines Project

Dear Deputy Director General Guina:

The Bureau of Export Trade Promotions of the Department of Trade and Industry (DTI) has conducted a technical review of the United States Agency for International Development (USAID) proposed Private Investment and Trade Opportunities-Philippines (PITO-P) project with the Philippine Exporters Foundation (PEF).

After careful review and discussion with the other technical officers within the DTI, we find PITO-P to be in keeping with DTI's overall policy for private sector led export oriented economic growth.

The project contains components delivered through the PEF for the benefit of small and medium (SME) enterprise. It includes a computer assisted marketing information system which PEF will operate on a fees for service basis. The BETP shall allow PEF access to its on-line data bank with the understanding that the PEF shall shoulder the full cost of database subscription required by BETP for three (3) years. Training and technical assistance will be provided to SMEs on a cost sharing basis. Policy research on topics of interest to traders will also be paid for by the PITO-P project.

In addition, a network of three (3) brokerage offices will be assisted in Manila, Cebu and Davao to facilitate two way trade between the Philippines and its major trading partners. These brokers will be Filipino and/or American joint entities to take advantage of their respective export/import channels and be providing fee based services to SMEs.

Overall, the International Trade Group of the DTI finds the PITO-P project timely and technically acceptable to the goals and objectives of the government.

As such, we provide NEDA this memorandum as our letter of "no technical objection" to the PITO-P project and strongly endorse this activity for consideration by NEDA in its negotiation with USAID/Philippines.

Sincerely,

FRANCISCO V. DEL ROSARIO
Undersecretary

cc: Mr. Bruno Cornelio
USAID/Philippines

BUREAU OF EXPORT TRADE PROMOTION

09 July 1990
RO-AME:09.07.90/L

Ms. Ma. Rosario Q. Franco
President & Chief,
Operation Officer
Philippine Exporters Foundation
International Trade Center
Roxas Blvd. cor. Gil Puyat Avenue
Pasay City, Metro Manila

Dear Ms. Franco:

The Bureau of Export Trade Promotion (BETP) of the Department of Trade and Industry (DTI) would like to confirm its intention to assist the Philippine Exporters Foundation (PEF) in your proposed Private Investment and Trade Opportunities - Philippine Project.

We understand PEF will enter into a Cooperative Agreement with the United States Agency for International Development (USAID) for the funding of PITO-P. In this connection, the BETP assures PEF of its support particularly in the implementation of the PITO-P by providing the PEF access to our UNDP funded computer assisted trade information system. It is understood that PEF shall shoulder the full cost of select international data bank subscription required by the BETP. This absorbing of the full cost shall be co-terminus with the life of the PITO-P project which we understand will be for a period of three (3) years starting 1990.

In addition, PITO-P has components to assist small and medium enterprise (SME's) engaged in trade through technical assistance, training and policy research. Please be assured that BETP is also prepared to support and assist PEF in these areas on a cost share basis. A special effort will be made to have DTI accept trade policy reform issues identified by PITO-P.

My staff and I look forward to working with you on this developmentally worthwhile private sector activity.

Sincerely,

ANTONIO J. TRIA TIRONA
Director, BETP

cc: Mr. Bruno Cornelio
USAID

ANNEX C. PID APPROVAL CABLE AND USAID RESPONSE

ANNEX C

ACTION: AID-6 INFO: AMB DCM AA ECON/10

VZCZCMN0126
RR RUEHML
DE RUEHC #4164/01 1811334
ZNR UUUUU ZZH
R 301330Z JUN 90
FM SECSTATE WASHDC
TO AMEMBASSY MANILA 0837
BT
UNCLAS SECTION 01 OF 03 STATE 214164

30-JUN-90 TOR: 13:37
CHRG: AID
DIST: AID

ACTION TAKEN
NAM Other Comments
Type No. Issues being addressed in PP
Dated 7/02 Initials

RECEIVED
JUL 12 45 PM '90
AID/C&R

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: PHILIPPINE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT (492-0449) - AID/W PID REVIEW

1. THE SUBJECT PID WAS REVIEWED ON JUNE 11 BY THE AID/W PROJECT REVIEW COMMITTEE (PRC). THE FOLLOWING ISSUES AND RECOMMENDATIONS ARE OFFERED FOR CONSIDERATION DURING PP DEVELOPMENT (WE UNDERSTAND SEVERAL OF THESE ISSUES ARE ALREADY BEING ADDRESSED IN THE DRAFT PP):

DIV	ACT	INF
OD		✓
PE		
OLA	✓	
PESO	✓	
CSO		
DRM		✓
EXO		
A/EXO		
PROC		
PER		
C&R		
DMD		
CMD		
GSO		
TRV		
OFM		
OCP		
ORAD		
OPHN		
OFFPVC		
RIG/A		
RIG/I		
DUE DATE		
7-10-90		

2. OVERALL THE PRC COMMENDED THE MISSION FOR ITS TIMELY SUBMISSION OF THE PID, THE PLANNED USE OF THE PRIVATE SECTOR AND INTENTION TO COORDINATE CLOSELY WITH THE PITO-ASEAN PROJECT. THE MISSION IS AUTHORIZED TO DEVELOP AND APPROVE THE PP IN THE FIELD.

3. FOCUS: THE PRC BELIEVED THE PP SHOULD NARROW THE FOCUS OF THE PROJECT, OR PRESENT A PLAN AND TIME FRAME FOR NARROWING THE FOCUS EARLY-ON IN IMPLEMENTATION. THE AREAS OF OPPORTUNITY FOR INCREASED FOCUS ARE PRESENTED BELOW; IF THE MISSION DISAGREES WITH ANY OF THE FOLLOWING, THE PP SHOULD DEMONSTRATE THE LOGIC FOR NOT INCREASING FOCUS:

SECTOR/PRODUCT FOCUS:

INITIALLY THE REGIONAL SERVICE CENTERS WOULD PROMOTE TRADE AND INVESTMENT (T AND I) ACROSS ALL SECTORS AND PRODUCT LINES. THE PROJECT SHOULD ATTEMPT TO CONCENTRATE ON CERTAIN SECTORS/PRODUCTS. THE PID POINTS OUT THAT THE GTZ (GERMAN) PROJECT WAS SUCCESSFUL BECAUSE, AMONG OTHER THINGS, IT CONCENTRATED ON CERTAIN SECTORS. THE PITO-ASEAN PROJECT WILL CONCENTRATE ON SPECIFIC SECTORS. THE PROJECT SHOULD IDENTIFY, IN THE PP OR EARLY ON IN IMPLEMENTATION, SECTORS FOR CONCENTRATION. THE PROJECT SHOULD THEN TARGET SPECIFIC PRODUCTS FOR FOCUSED ATTENTION. OTHER MISSIONS HAVE FOUND THAT THE USE OF IESC VOLUNTEERS, WITH THEIR IN-DEPTH EXPERIENCE WITH SPECIFIC PRODUCTS AND THE U.S. MARKET, IS INVALUABLE IN IDENTIFYING SPECIFIC PRODUCT T AND I OPPORTUNITIES. FOR EXAMPLE, THE PROJECT COULD BRING OUT A VOLUNTEER WITH 30 YEARS EXPERIENCE IN

65

HARDWOOD FURNITURE TO ASSESS EXISTING FURNITURE PRODUCTS AND THE COMPANIES THAT PRODUCE THEM. THE MISSION SHOULD CONSIDER USING IESC AS A SUB-GRANTEE FOR THIS PURPOSE.

-- B. SERVICE CENTER ACTIVITY FOCUS:

THE PROPOSED BROKERAGE ACTIVITIES OF THE SERVICE CENTERS SHOULD BE MORE FOCUSED. THE PID ANTICIPATES THAT THE SERVICE CENTERS WOULD PROMOTE DOMESTIC AS WELL AS INTERNATIONAL TRADE. INTERNATIONAL TRADE WOULD NOT BE DIRECTED TOWARD THE U.S. ONLY, AS IS THE CASE OF THE PITO-ASEAN AND THE THAILAND T AND I SUPPORT PROJECTS; IT WOULD BE DIRECTED WORLDWIDE. INVESTMENT STIMULATION WOULD COVER DOMESTIC AS WELL AS INTERNATIONAL INVESTMENT. IMPORTS WOULD BE BROKERED BY THE SERVICE CENTERS AS WELL AS EXPORTS. TO BE MOST EFFECTIVE, THE BROKERAGE ACTIVITIES SHOULD BE MORE TARGETED. FOR EXAMPLE, TARGET GROUPS AND PROBLEM AREAS DIFFER FROM DOMESTIC AND EXPORT-ORIENTED ENTERPRISES. SETTING PRIORITIES ON WHICH APPROACH WILL BE PURSUED FIRST SHOULD ASSURE PROJECT FEASIBILITY. (SEE NEXT PARAGRAPH FOR IDEAS OF HOW TO TARGET).

-- C. DEFINING OUTPUTS:

ONE WAY TO ASSURE PROJECT FOCUS IS TO DEFINE OUTPUTS IN RESULTS-ORIENTED TERMS (E.G. IN ADDITION TO SAYING 20 POLICY STUDIES WILL BE CONDUCTED, ALSO SAY THAT THREE POLICY REFORMS WILL BE IMPLEMENTED). IT M Y BE DESIRABLE TO ADD OUTPUTS AS FOLLOWS: (A) DOL. X MILLION

IN EXPORTS CREATED, (B) Y INVESTMENTS CONSUMMATED AND (C) Z POLICY REFORMS IMPLEMENTED. AT LEAST ONE MEMBER OF THE PRC BELIEVED THAT MANY OF THE RESULTS-ORIENTED BENEFITS WOULD NOT MATERALIZE UNTIL AFTER THE PROJECT COMES TO AN END. NEVERTHELESS, THERE CONCEIVABLY WOULD BE, BY THE PACD, SOME EXPORTS CREATED, SOME INVESTMENTS CONSUMATED, ETC. THEREFORE, THE MISSION MAY WANT TO ADD TONED-DOWN RESULTS-ORIENTED OUTPUTS TO THE OUTPUTS PRESENTED IN THE PID.

-- D. TARGET FIRMS:

THE ABOVE ISSUES CONCERNING FOCUS CALL FOR NARROWING EFFORTS AND SETTING PRIORITIES. NEVERTHELESS, PERHAPS THE MISSION'S INTENTION TO CONCENTRATE ON SME FIRMS (THOSE WITH LESS THAN DOL. 500,000 IN ASSETS) IS TOO RESTRICTIVE. ALTHOUGH, CONCENTRATING ON SME'S HAS ITS MERITS, FIRMS CAPABLE OF EXPORTING TEND TO BE LARGER THAN THOSE ABLE TO PRODUCE FOR THE LOCAL MARKET. THIS WAS AN ISSUE WITH THE PITO-ASEAN DESIGN AND THE CONCLUSION WAS NOT TO LIMIT EFFORTS TO SME'S ONLY. IT
BT
#4164

NNNN

106

IS RECOMMENDED THAT THE PROJECT NOT LIMIT EFFORTS STRICTLY TO SME'S.

4. PROBLEM DEFINITION:

THE PRC BELIEVED THAT THE PROBLEM STATEMENT NEEDS MORE WORK. THIS MAY HELP OVERCOME THE FOCUS ISSUE AND ALLOW THE APPROPRIATE IMPLEMENTATION APPROACH TO BECOME MORE OBVIOUS. THE PITO-ASEAN PP MAY BE OF HELP. SOME ON THE COMMITTEE BELIEVE THAT A MAJOR PROBLEM IS THAT EXISTING PRIVATE SECTOR TRADERS AVOID MARGINAL CLIENTS DUE TO THE EXTRA COSTS INVOLVED. IT IS THEREFORE RECOMMENDED THAT THE BROKERAGE COMPONENT TARGET THOSE FIRMS THAT ARE NOT PRESENTLY EXPORTING TO THE U.S. OR BEING SERVICED BY EXISTING TRADING COMPANIES, BUT WOULD LIKE TO EXPORT. EXISTING TRADING COMPANIES MIGHT BE PERSUADED, THROUGH CASH INCENTIVES, RETAINERS OR OTHER MEANS, TO TAKE ON CLIENTS THAT THEY NOW DO NOT HANDLE DUE TO LACK OF EXPORT OR EXPERIENCE, NON-TRADITIONAL PRODUCTS, UNFAMILIARITY OF PRODUCTS BY POTENTIAL IMPORTERS, ETC. THE PP SHOULD, AT A MINIMUM, EXPLORE THE POSSIBILITY OF WORKING THROUGH EXISTING TRADING COMPANIES TO CREATE EXPORTS RATHER THAN HAVE THE NEWLY-CREATED SERVICE CENTERS COMPETE WITH THE FOR-PROFIT PRIVATE SECTOR BY PROVIDING THIS SERVICE IN-HOUSE. THE PP SHOULD ANSWER THE QUESTIONS: DO ACTIVE TRADING COMPANIES EXIST IN EACH OF THE PROPOSED SERVICE CENTER LOCATIONS, COULD

THEY BE PERSUADED TO TAKE ON MARGINAL CLIENTS IF INCENTIVES WERE FORTHCOMING, WHAT WOULD BE THE NATURE OF THE NECESSARY INCENTIVES AND WOULD THE PROJECT REASONABLY PROVIDE SUCH INCENTIVES?

5. SUSTAINABILITY:

IT WOULD APPEAR FROM THE PID THAT ONLY THE BROKERAGE AND DATABASE INFORMATION COMPONENTS WOULD BE SUSTAINABLE AFTER THE PACD. THE TA/TRAINING, T AND I PROMOTION AND POLICY STUDY COMPONENT WOULD PROBABLY COME TO AN END. THE QUESTION IS WHETHER OR NOT THE PROJECT CAN BE JUSTIFIED, EVEN THOUGH SOME ACTIVITIES HAVE LITTLE CHANCE OF BEING SUSTAINED. IT IS RECOMMENDED THAT THE PROJECT GO FORWARD AND THE PP DEMONSTRATE THAT THE PROJECT IS VIABLE IN THAT THE OUTPUTS JUSTIFY THE PROJECT INVESTMENT, INDEPENDENTLY OF THE SUSTAINABILITY OF ALL PROJECT COMPONENTS. THE PP EVALUATION PLAN SHOULD ALSO CALL FOR AN ASSESSMENT TO DETERMINE WHETHER OR NOT THIS HYPOTHESIS IS VALID.

6. LENGTH OF PROJECT:

THE PRC QUESTIONED WHETHER OR NOT A FOUR-YEAR LOP WAS ADEQUATE. IT WAS CONCLUDED THAT AT LEAST A FIVE YEAR PROJECT WOULD BE REQUIRED TO DEMONSTRATE TO FEE-PAYERS THAT THEY SHOULD PICK-UP THE TOTAL COST OF SOME OF THE SERVICES BEING OFFERED UNDER THE PROJECT. IT IS RECOMMENDED THAT THE PROJECT BE AUTHORIZED FOR FIVE YEARS TO ASSURE A FULL FOUR YEARS OF ACTIVE

IMPLEMENTATION. IT IS FURTHER RECOMMENDED THAT AN EVALUATION STUDY BE CONDUCTED AFTER YEAR THREE OF THE FIVE YEAR PROJECT TO ASSESS THE LIKELIHOOD OF SUSTAINABILITY AND THE FEASIBILITY OF CORRECTIVE MEASURES TO MAKE THE ACTIVITIES MORE ATTRACTIVE TO FEE-PAYERS.

7. FUNDING LEVEL OF PROJECT:

THE PRC RECOMMENDS THAT CERTAIN BUDGET ITEMS BE REVIEWED IN THE PP TO ASSURE THAT THEY ARE NOT UNDER-FUNDED: A) DOL. 75,000 PER YEAR FOR AMERICANS ASSIGNED TO THE SERVICE CENTERS; B) BROKERAGE AND OTHER SERVICE CENTER INCOME (WHAT IS ESTIMATED DEMAND AND HOW WAS THE ESTIMATE DETERMINED); AND C) DOL. 850,000 FOR THE IMPLEMENTING INSTITUTION'S BUDGET.

8. RELATIONSHIP TO OTHER PROJECTS AND GOP PROGRAMS:

-- A. HOW WILL THIS PROJECT RELATE TO THE PRIVATE ENTERPRISE POLICY SUPPORT, SUPPORT FOR DEVELOPMENT, SMALL ENTERPRISE CREDIT, RURAL FINANCIAL SERVICES, SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECTS AND EXPECTED CAPITAL PROJECTS FINANCING FACILITY? WHAT ABOUT OTHER DONOR PROGRAMS?

-- B. WILL THE POLICY STUDY COMPONENT RECOMMENDATIONS BE TIED TO THE OBLIGATION OF PEPS? IF NOT, THE PP SHOULD JUSTIFY. SHOULD THE PROJECT FUND PUBLIC/PRIVATE SECTOR SEMINARS TO DEBATE THE POLICY STUDY RECOMMENDATIONS?

-- C. WHAT WILL BE THE RELATIONSHIP BETWEEN THE SERVICE CENTERS AND THE GOP SMALL BUSINESS ADVISORY CENTER (SBAC) SYSTEM? WILL THERE BE OVERLAP, COOPERATION, NITCH FILLING, DUPLICATION? HOW WILL THE CENTERS COMPETE WITH THE HIGHLY SUBSIDIZED SBAC OFFICES? WILL THE SERVICE CENTERS HAVE ACCESS TO THE SAME SORTS OF
BT
#4164

NNNN

INFORMATION DISSEMINATED BY THE SBAC OFFICES, E.G. HELPING GETTING SME LOANS?

9. HOST COUNTRY CONTRIBUTION:

THE PP SHOULD SHOW A 25 PERCENT HOST COUNTRY CONTRIBUTION. THIS NEED NOT COME FROM THE GOP, ALTHOUGH SOME MAY. FEES EARNED MAY BE COUNTED, AS CAN PRIVATE SECTOR COST SHARING FOR TA, IN-KIND CONTRIBUTIONS FROM PHILEXPORT, ETC.

10. MISSION MANAGEMENT BURDEN:

BECAUSE PHILEXPORT HAS NOT MANAGED AN A.I.D. GRANT IN THE PAST, IT MAY HAVE CONSIDERABLE DIFFICULTY UNDERSTANDING A.I.D. RULES AND PROCEDURES, RESULTING IN IMPLEMENTATION PROBLEMS. THE PRC, THEREFORE, RECOMMENDS THAT PHILEXPORT BE PROVIDED WITH TA TO HELP MANAGE THE GRANT. A PSC WITH AID EXPERIENCE IS ONE POSSIBILITY AS MIGHT BE A FORMER IESC COUNTRY DIRECTOR WITH A GOOD TRACK RECORD OF MANAGING A STAND-ALONE AID GRANT.

11. ENVIRONMENT:

THIS PROJECT MEETS THE CRITERIA FOR A CATEGORICAL EXCLUSION FROM AID ENVIRONMENTAL PROCEDURES UNDER 22 CFR 216.2 (C) (1) (II). HOWEVER, THE PROJECT OFFERS A UNIQUE OPPORTUNITY TO (1) PROMOTE TRADE AND INVESTMENT OF U.S. ENVIRONMENTAL TECHNOLOGY AND (2) PROVIDE

TECHNICAL ASSISTANCE AND ENVIRONMENTAL TRAINING ON INDUSTRIAL POLLUTION PREVENTION. THE PROMOTION OF ENVIRONMENTAL BUSINESS OPPORTUNITIES UNDER MISSION PRIVATE ENTERPRISE PROJECTS, ASEAN PITO AND THE U.S. MULTILATERAL ASSISTANCE INITIATIVE SHOULD BE COORDINATED WITH THE ACTIVITIES UNDER THIS PROJECT TO BUILD AN EFFECTIVE ENVIRONMENTAL TRADE AND INVESTMENT PROGRAM. INDUSTRIAL POLLUTION PREVENTION TRAINING AND ASSISTANCE SHOULD ALSO BE CONSIDERED. ENVIRONMENTAL EXPERTS, SUCH AS THE WORLD ENVIRONMENTAL CENTER, CAN RECOMMEND INDUSTRIAL PRODUCTION PROCESSES/EQUIPMENT AND MANAGEMENT PRACTICES THAT WILL IMPROVE INDUSTRIAL EFFICIENCY/PROFITABILITY AND ALSO REDUCE POLLUTANT DISCHARGES.

ANE/PD/ENV UNDERSTANDS THAT THE MISSION NEEDS TO ASSESS THIS PROJECT, OTHER PRIVATE ENTERPRISE PROJECTS/ACTIVITIES AND THE NEW URBAN/INDUSTRIAL POLLUTION PROJECT TO DEVELOP EFFECTIVE ENVIRONMENTAL TRADE AND INVESTMENT AND INDUSTRIAL POLLUTION PREVENTION PROGRAMS THAT ARE TAILORED TO THE MISSION'S MANAGEMENT PLAN AND THE NEEDS OF PHILIPPINE INDUSTRY. ANE/PD/ENV IS AVAILABLE TO PROVIDE TA ON PROJECT DESIGN AND WOULD ALSO APPRECIATE AN OPPORTUNITY TO REVIEW THE MISSION'S INDUSTRIAL POLLUTION PROGRAM AFTER COMPLETION OF THE ASSESSMENT AND PROJECT DESIGNS.

12. POINTS FOR CLARIFICATION:

THE PP SHOULD ADDRESS THE FOLLOWING:

A. THE AVAILABILITY OF:

1. EXPORT FINANCING/LOAN GUARANTEES

2. INDEPENDENT QUALITY CONTROL/EXPORT INSPECTION SERVICES TO ASSURE INITIAL EXPORT ORDERS MEET THE QUALITY EXPECTATIONS OF IMPORTERS

B. SAFEGUARDS TO ASSURE THAT THE MEMBERS OF THE IMPLEMENTING INSTITUTION DO NOT MONOPOLIZE PROJECT EFFORTS/INCENTIVES

C. GOP COMMITMENT TO THE PROJECT (I.E. SHARING OF TRADE DATABASE, LINK WITH AGENCY WHICH KNOWS WHO IS WHO IN PHILIPPINE EXPORTING AND SHARING OF SBAC INFORMATION).

D. PLANS FOR INFORMING POTENTIAL U.S. INVESTORS OF THE

STATUS OF THE PHILIPPINES WITH REGARD TO INTELLECTUAL PROPERTY RIGHTS (IPR'S). IN LIGHT OF THE FACT THAT THE PHILIPPINES HAS BEEN IDENTIFIED BY THE U.S. OFFICE OF THE TRADE REPRESENTATIVE AS A "WATCH COUNTRY", PROVIDING INADEQUATE PROTECTION OF IPR'S, SOME PROVISION SHOULD BE MADE TO INFORM POTENTIAL U.S. INVESTORS OF THE STATUS OF THE PHILIPPINES IN THIS REGARD. BAKER
BT
#4164

NNNN

10

PID Approval Cable and Mission Response

ISSUES:

1. Focus: Project focus has been increased by reducing the number of components from five in the PID to three, reducing the management burden. All components will be implemented through a single, existing and capable entity, PHILEXPORT, which will in turn implement the project through existing private sector entities.

A. Sector and product focus is expected to vary according to the economic opportunities in the three regions, but will be defined in the RFP issued by PHILEXPORT and in the resultant proposals. Possible product focus could be, for Davao, processed foods, wood working, wood products, and leather products; for Cebu, light manufactured goods, housewares and handicrafts, and processed foods; for Metro Manila, services such as computer data processing, light manufacturing and housewares and handicrafts. IESC is a potential respondant to the RFP, to implement activities in a Regional Service Center, or, if not so selected, can be considered for specific product-related assistance.

B. Regional Service Centers, to respond to needs of potential exporters, must also be able to respond to requests concerning importation of raw materials, imported capital goods, packaging materials, or other inputs. Primary emphasis will be on trade, particularly with the United States, and on services and inputs needed to stimulate the Philippines' export sector.

C. Expected outputs and performance indicators have been refined to be realistic and reflective of the focus on exports.

D. Target Firms: The project will focus assistance on export oriented industries and those areas where the Philippines has a true comparative advantage or where effective protection rates are low. Therefore, small and medium industries will benefit more from the project's developments thrust. Many of the large firms in these sectors are not likely to need the promotional, training and technical assistance services of the project, but may well use brokering and information services. All firms would benefit from policy changes opening up the trade regime or otherwise making the economy more responsive to market forces.

2. Problem Definition: The problems addressed by PITO-P include: 1) inadequate promotional services to potential traders and investors including information on general economic and business operating conditions, and specific trade and joint venture opportunities; operating-level (micro) policy constraints affecting traders and investors; and 3) SMEs' needs for skills improvement in management and technology application.

In addressing these constraints, the project will work through existing brokerage or trading companies or joint ventures, not establish a new entity to compete with existing firms. Winning firms or non-profit groups will be charged in the RFP and resulting contracts or sub-grants with extending their

reach to smaller, riskier clientele; it is anticipated that fees to clients will be scaled according to size and experience. The project will provide for cost sharing for smaller firms in the data information, brokering, technical assistance and training components to assure that SMEs can access the project services. Project cost sharing will provide the necessary incentive to the implementing entities to seek these clients out. Such cost-sharing will be phased down and out over the project life.

3. Sustainability: The financial analysis examines the potential for profitability and sustainability of the brokerage services of the Regional Service Centers, the operating arms of the project. It concludes that each can achieve the necessary Internal Rates of Return and be self sustaining after the project ends through its brokering services. The level of trade transactions required for profitability is judged a reasonable target, given trade trends in these areas, expressed demand for such services, and experience of similar efforts in other countries. 1990 export levels for the National Capital Area are projected at $5.2 billion, and for Cebu and Davao, $622 and $358 million respectively. Access to database information services, technical assistance and training is also provided on a fee-for-service basis (with cost-sharing for marginal firms). The database system shows non negative cash flow in year four, and sustainability after the project ends.

The economic analysis of the project provides agreements for its economic merits and viability through cost effectiveness analysis of the different components, and demonstrates the likelihood of achieving the required level of benefits for the RSC component and the project as a whole. The demand for project services can be estimated from the need for the policy and institutional framework to help realize expansion of trade and investment levels, as indicated by the project strategy and from informal discussions with businessmen and PHILEXPORT officials.

PHILEXPORT is currently fully self-supporting from membership dues and operation of bonded warehouses. Increased membership due to expanded services, as well as fees for brokering, information, training and technical services are expected to permit PHILEXPORT to continue project activities after the project ends. Like any activity undertaken in the private sector, it is subject to business risk, but the level of risk is judged to be acceptable, and the potential for a successful and sustainable trade and investment effort to be high. The monitoring and evaluation plan calls for regular assessment of progress toward sustainability.

4. Length of Project: Financial analysis indicates that a four year effort should bring the regional centers to a sustainable level of income. The AID Project Manager will closely monitor performance, and project evaluations will consider whether additional time or a second phase effort is needed.

5. Funding level: Costs of the Regional Service Centers, including U.S. technical services, if any, are not pre-assigned, and will be determined in proposals submitted by trading houses in response to an RFP. Brokerage income is examined in the Financial Analysis, Annex F.

Support for PHILEXPORT: The Cooperative Agreement will include $850,000 for project management, including any necessary TA. This is judged sufficient at this point. Four Filipino project staff are currently envisioned, an overall project manager and three managers for the Regional Service Centers.

6. A. Relationship to Other Mission Programs: The PITO-P project links directly to the network of private sector activities of the Mission, and provides an important missing service for direct trade and investment services to SMEs. Policy studies will be coordinated with the Mission's Economic Office to assure they are supportive of the Mission's full policy agenda. PITO-P's policy efforts are directed toward relatively specific legal, policy and regulatory constraints to private sector trade and investment, rather than toward macroeconomic policy issues, and hence are complementary to other AID policy dialogue initiatives. Other donor activities in trade and investment are discussed in Section III.C. This project utilizes the UNDP, Japanese and World Bank contributions in the trade and investment area, and project activities will be appropriately coordinated with interested donors.

B. Policy Linkage to PEPS: The policy efforts envisioned for PITO-P are directed toward relatively specific legal, policy and regulatory constraints to private sector trade and investment, rather than toward macroeconomic policy issues, as is PEPS. Hence the project's policy efforts are complementary to other AID policy dialogue initiatives. PITO-P's policy activities will be coordinated with the Office of the Program Economist to assure complementarity. It is not possible to link policy recommendations arising from PITO-P to obligations under PEPS; however, they may feed into the development of future PEPS. These recommendations will only be developed as studies are concluded over the project life, and are aimed at very specific operational constraints, not appropriate for inclusion in PEPS' broader policy approach.

C. Relationship to GOP's Small Business Advisory System: The SBAC focusses on micro to small businesses, whereas PITO-P will focus on small and medium enterprises, but will also provide services to large firms, if requested. While PHILEXPORT and the regional centers will be able to access GOP information for clients, the point of the project is its access to private sector information, including overseas market information, which SBAC is unable to provide. Thus there should be opportunities for cooperation and nitch filling, rather than direct competition in the provision of services.

7. Host Country Contribution:. Local contributions from public and private sources exceed 25 percent of project costs.

8. Mission Management: During project design, the structure and management approach has been rationalized and streamlined. PHILEXPORT will be provided four Filipino project staff including an overall project manager. The Mission expects to be able to provide all necessary guidance and support to PHILEXPORT through PESO and other Mission offices.

9. Environment: Technical assistance and training on industrial pollution prevention and other environmental issues will be included in the services available under the project, and opportunities for application of U.S. environmental technology will be explored.

POINTS FOR CLARIFICATION:

1. Availability of export financing/loan guarantees: This project does not provide export financing through loans or guarantees because this need is being met through both public and private banks with export financing facilities. The Development Bank of the Philippines has such financing, as do numerous private banks. Analysis of constraints to trade and investment concluded that financing was not a key problem requiring attention under this project.

2. Quality Control: There is currently no national institution with authority to set quality standards for exports across the board, or to enforce voluntary standards which exist in areas such as food and drugs. PITO-P can address this gap by 1) including standards and inspections among the policy issues to be studied and raised to the GOP; 2) use the influence of PHILEXPORT among its exporting members to raise consciousness about the importance of this issue, and offer TA and training in quality control; 3) include in the RFP that, for the transactions generated by the project, exports should be tested whenever there are standards established for the products in question.

3. Monopolization of Services: PHILEXPORT will work through three existing institutions who will operate the service centers. They will be competing with each other and other trading/brokerage houses in the provision of brokering services. Monopolization of project efforts and incentives is highly unlikely, as their incentive is to maximize the number of firms they work with (and fees collected).

4. GOP Commitment: The Department of Trade and Industry's commitment to the project is demonstrated by its letter of cooperation with PHILEXPORT, and its agreement to contribute the computer database system to the project. DTI is highly supportive of PHILEXPORT's implementation of the project, and has pledged full support and information sharing.

5. Intellectual Property Rights: In its investment promotion efforts, PITO-P can assure that information on the Philippines status with regard to IPO is available to potential U.S. investors. A representative of the U.S. Foreign Commercial Service is expected to serve on the Project Implementation Committee, and can be expected to advise on this issue when sensitive areas of technology may be involved.

ANNEX D. STATUTORY CHECKLIST

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	The Country Checklist was completed on June 5, 1990.

A. GENERAL CRITERIA FOR PROJECT

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?	Congress cleared notification on
2. FAA Sec. 611(a). Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	Yes.
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	N.A.

4.	FAA Sec. 611(b); FY 1990 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)	N.A.
5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	N.A.
6.	FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No.
7.	FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	Project is intended to foster the flow of international trade and private sector development and promote open market policies.
8.	FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	Project purpose is to promote U.S.-Philippine trade and investment links.

11

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The host country contribution will include a computer data base system. In addition, the private sector is expected to contribute to project costs both in cash and in kind.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

11. FY 1990 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

Project will include negative list of such products.

12. FY 1990 Appropriations Act Sec. 547. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

Project will include negative list of such products.

13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other

No.

wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N.A.

15. FY 1990 Appropriations Act, Title II, under heading "Agency for International Development." If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N.A.

16. FY 1990 Appropriations Act Sec. 537. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? Yes.

17. FY 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? N.A.

18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

N.A.

19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?

Project does not include significant commodity procurements.

20. FY 1990 Appropriations Act, Title II, under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes.

21. FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N.A.

Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1990 Appropriations Act Sec. 546 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?	N.A.
b. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes.
c. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	The project seeks to assist small-and-medium enterprises to expand production and trade based on local capacities..

d. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes.
e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will: (1) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.	Project works in decentralized regions to promote labor intensive production. Women will be major beneficiaries.
f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Does the project fit the criteria for the source of funds (functional account) being used?	Yes.
g. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for	N.A.

use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

h. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? — Yes.

i. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — Yes.

j. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? — Poor majority will benefit by increased employment opportunities

k. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. — Project builds on local capacity to produce export products through small-and-medium enterprises.

l. FY 1990 Appropriations Act, under heading "Population, DA," and Sec. 535. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? — No.

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	No.
Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	No.
Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?	N.A.
In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?	N.A.
Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No.
m. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.
n. FY 1990 Appropriations Act Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and	Grantee will be encouraged to use such services. Evaluation services can be carried out by such groups.

private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

o. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a

Yes.

condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; and (11)/utilize the resources and abilities of all relevant U.S. government agencies?

p. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project: (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (2)/take full account of the environmental impacts of the proposed activities on biological diversity? N.A.

q. FAA Sec. 118(c)(14). Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? No.

r. FAA Sec. 118(c)(15). Will assistance be used for: (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (3) the No.

colonization of forest lands; or (4) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

s. <u>FY 1990 Appropriations Act Sec. 534(a)</u>. If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N.A.

t. <u>FY 1990 Appropriations Act Sec. 534(b)</u>. If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources? N.A.

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced

biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

u. <u>FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA"</u> (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it: (1) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (4) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take

N.A.

into account, in assisted policy reforms, the need to protect vulnerable groups; (5) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

v. <u>International Development Act Sec. 711, FAA Sec. 463.</u> If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing, and watershed management. N.A.

w. <u>FY 1990 Appropriations Act Sec. 515</u>. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? Yes.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N.A.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest? N.A.

c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N.A.

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

ANNEX E. TECHNICAL ANALYSIS

TECHNICAL ANALYSIS

A. THE ECONOMIC SETTING FOR TRADE AND INVESTMENT

The prime objective of the PITO-Philippines (PITO-P) Project is to contribute to the establishment of a self-sustaining private sector mechanism to foster, promote, and facilitate expanded private sector trade and investment between the United States and the Republic of the Philippines. Timing is a critical issue. The East Asian region is experiencing dynamic economic growth, and it is imperative that the Philippines participate in a more ambitious, yet orderly fashion in this process. PITO-P is designed to address and ameliorate existing trade and investment constraints to that the Philippines can improve its long-term economic performance.

The purpose of this analysis is to review the economic climate in the Philippines and to examine those factors which directly affect private sector development in the country. A rich body of recent literature and quantitative data has been reviewed to support this analysis, but the information contained therein will not be repeated in detail. Nearly every component of the economy has been closely scrutinized and analyzed. These studies have been carried out under the aegis of such organizations as USAID/Philippines, the World Bank, the Asian Development Bank, the United Nations, the Philippine Chamber of Commerce and Industry, and the Philippine Institute for Development Studies, among others.

These analytical resources serve as the basis for this assessment and will be cited where appropriate. To the extent possible, only materials of known credibility and relevance have been utilized.

1. The Philippine Economic Structure in Brief

The Structure and Performance of the Economy: The Philippine economy is as diverse as its geography. The country consists of a series of half-submerged mountain ranges, part of a great chain extending from Japan to Indonesia. The 7,107 islands, islets, and rocks that comprise the Philippine archipelago stretch 1300 miles from north to south and 620 miles from east to west at the widest point. More than 4,000 of its islands remain unnamed. The total land area of the islands is 180,000 square miles, with 90 percent of this land constituting the eleven largest islands. Topographically, the Philippines is mountainous with large flat farmlands.

Historically dominated by agriculture and trading, the Philippine economy has undergone significant structural changes over the last twenty years. In 1970, the share of traditional exports (coconut products, sugar, forest products and minerals) represented 91.5 percent of all exports. This amount

fell to less than 24.0 percent in 1987. Non-traditional manufactured goods such as garments and electronics, on the other hand, have grown from 8.0 percent in 1970 to 73.4 percent in 1987.

The economy is becoming increasingly dependent on external trade. Trade (exports and imports combined) as a share of gross national product (GNP) has risen from 43.8 percent in 1986 to 51.1 percent in 1989. However, most of this increase can be attributed to growth in imports, whose share of GNP rose from 18.7 percent to 26.4 percent over the period. The share of exports actually declined modestly, from 25.1 percent in 1986 to 24.7 percent in 1989.

Increasing productive investment and expanding exports are the requisites of future economic progress in the Philippines. However, the country will have to refocus its efforts if it is to remain competitive within the region and the world. Economic growth has slowed to 5.6 percent in 1989, compared with 6.7 percent the previous year. Projections indicate that following the recovery of 1986-1988, growth in output is expected to decrease from the current 4.0-5.0 percent range in 1990 to a 3.0 percent level over the next three to five years.

The rate of inflation, though well below the debilitating 51 percent reached in 1984, remains in double digits, amounting to 14.1 percent in 1989 (December 1989 over December 1988). Structural adjustment showdown, reflected in the December 1989 coup attempt and prolonged electrical power shortages, has been fueling inflation and undermining the country's internal growth and external competitiveness. In addition, the Philippines faces increasing prospects of a serious balance of payments crisis.

Domestic consumption and rising living standards are heavily reliant upon imports. The country had a trade balance deficit of $2.6 billion in 1989, up 140 percent over the previous year. For the same period, the Republic experienced a current account shortfall of $1.6 billion, an increase of 300 percent. The imbalance is the direct result of the unabated demand for capital good imports generated in turn by increased domestic demand for more and better consumer products. Short of depressing demand,import dependence should either be mitigated by increased domestic sourcing (based on market forces rather than on trade restrictions) or be financed from receipts from expanded exports.

The external debt of the Philippines at the end of 1989 was approximately $28 billion, or 62 percent of GDP. Debt servicing requirements represent 242 percent of the nation's exports of goods and services and related transactions earnings. The National Economic Development Authority (NEDA) estimates that the country's annual financing gap should remain at $41.4 million through 1992, increasing to $1.7 billion thereafter.

In the short term, the PITO/Philippines project will focus on stimulating increased private sector trade. It will also promote investment opportunities within the country, not only to generate export revenues but

94

also to meet local demand through domestic production rather than through imports. The project strategy will be to rely on activating and stimulating the private sector rather than on government actions.

The experience of successful newly industrializing countries (NIC) in East Asia and elsewhere suggests that shifting one's orientation toward private investment and trade offers the highest likelihood for overcoming economic stagnation and instability. PITO-P is designed to contribute to such a shift in the Philippines.

Commercial Policy Strategies: During the 1950s, the Philippines embarked upon a disastrous protectionist course of strict, self-imposed foreign exchange and import controls, designed to support an import substitution strategy. The policy structure imposed numerous biases against exports, and in favor of capital-intensive, urban based production for domestic consumption.

As in other countries, while the import substitution stance yielded initial growth, the limited size of the market and the inefficiencies introduced and abetted by trade restrictions eventually negated these gains. By the late 1970s, the domestic economy began to falter. Growth became dependent on continuous foreign borrowing, and so external debt rose precipitously. Inflation began to climb, and GDP growth slowed measurably.

As in many other developing countries, a major debt problem surfaced, and reached crisis proportions in 1983. The Government of the Philippines (GOP) was forced to implement a substantial devaluation of the peso, in order to stem imports and increase the competitiveness of exports. The previous exchange rate policy heavily penalized the export sector, which remained largely stagnant except for sales of garments and semiconductors. The GOP also acted to liberalize the trade regime by introducing export and investment incentives, to reduce the public sector deficit, and to increase banking reserve requirements to contract liquidity and cool demand. The result was negative GNP growth rates in 1984 and 1985. The beneficial impact of "structural adjustment" measures was limited, however, due to continued corruption and lack of resolve to sustain reforms.

Upon coming to power in 1986, the Aquino administration set out to take concerted steps to reform the policy structure. The government continues to support the private sector by undertaking structural reforms designed to foster exports and encourage investment. The overall aim government policy is to sustain a democracy which demands participation by all segments of society. Some of the major reforms initiated to date have been: (1) the orderly restructuring of the financial system to encourage capital formation, protect savers and borrowers against political entanglements, and improve the allocation of financial resources based upon creditworthiness rather than political ties; (2) the elimination of monopolies, particularly in agriculture; and (3) the promotion of competition amongst industries (i.e., the removal of decades of overly protective laws).

Notwithstanding initial progress and continued interest in these reforms, the momentum for appropriate change has slowed substantially due to political instability, financial constraints, intransigence on the part of Marcos cronies entrenched in the system, and the tendency to rely on ad hoc crisis management. Reforms appear to be stalled in four areas: Agrarian reforms, privatization of key industries, decentralization of industry and commerce, and industrial sector restructuring.

The PITO/Philippines project will promote productive policy dialogue which fosters pro-private sector sentiments among government leaderships. In addition, as the project progresses it will contribute toward the alleviation of trade imbalances and foreign exchange shortages.

A central principle of PITO-P is that continuous policy reform represents an integral part of any dynamic economy. The project envisions involving the private sector directly in the development and implementation of commercial policies. The aim is to assist the private sector to play a productive role in policy dialogue, rather than act as a passive observer or vocal critic. It calls upon the private sector to promote its own interests more actively.

2. Economic Assets and Liabilities of the Philippines

Each nation is endowed with given amounts of productive economic resources. Certain categories such as land, mineral deposits and labor supply cannot be altered in the near term. Relative endowments basically determine comparative advantage. A country's growth and development are intrinsically tied to its resources.

Land and Natural Resources: Based on the country's rich resource base of fertile land and a climate conducive to cultivation, agriculture is the mainstay of the Philippines economy. The major crops are, in order of importance, rice, coconuts, corn, and sugar. Livestock and poultry are also important, and fisheries contribute significantly to the agricultural sector. Coconuts, sugar, and bananas are important generators of foreign exchange.

Rice and corn (mostly for domestic consumption) constitute almost 55 percent of total agricultural output, fisheries 20 percent, livestock and poultry 17 percent, and forestry 8 percent. The agricultural export base is limited almost exclusively to coconuts and sugar. Three fourths (over 3 million hectares) of all available crop land is dedicated to the cultivation of rice, corn and coconuts.

Nearly one half of the Philippine labor force is employed in agriculture. In addition, some thirty-five percent of all manufacturing operations (30,000 establishments) are food processors. The agricultural sector (including livestock, poultry, fisheries and forestry) accounts for approximately 24 percent of GNP, and provides about 25 percent of merchandise exports.

To increase agricultural productivity and to improve the standard of living for small farmers, the GOP introduced the Comprehensive Agrarian Reform Program (CARP) in June 1988. It seeks to distribute 10.3 million hectares to an estimated 3.9 million beneficiaries over a ten-year period. This progress of this program will depend upon the cooperation received from current landholders.

Labor Resources: The greatest asset in the Philippines economy is the nation's abundant pool of labor resources. The labor force was calculated at 23.9 million workers at the end of 1989. Wage rates are competitive by regional standards, although lower productivity in the Philippines has the effect of raising the unit costs of many products in comparison with those of, say, Thailand or Indonesia. The unemployment rate fell from 11.1 percent in 1986 to 8.3 percent in 1989, although hidden unemployment and underemployment are considerable.

Labor relations improved significantly during 1987 and 1988. The number of strikes fell from 581 in 1987 to 267 in 1988. The number of workers involved and man-days lost in strikes during 1988 was less than half of those in 1986. The reason for the improvement can be traced to several governmental measures -- amendments in the labor code, implementation of programs to promote voluntary arbitration, and steps undertaken to improve compliance with the labor code and enhance labor participation in management decisions.

Wages discrepancies have been attacked nationwide. At the minimum wage level, the differential between the compensation of national government employees and private sector workers have been narrowed substantially. Prior to 1985, the minimum compensation of a national government employee was about two thirds of that for workers doing essentially that same job in the private sector. By 1988, this position had reversed and now national government employees are slightly ahead. In recent months, employers have sought vigorously to limit wage increases in order to maintain their firms' price competitiveness.

Financial Resources: The financial structure of the Philippines is underdeveloped and is subject to policy-induced financial "repression." Investors tend to rely on internally generated funds for new projects and working capital. Credit for trade financing is in very short supply, and borrowers are forced to depend on expensive rollover credit lines.

Philippine banks are relatively small. The Central Bank of the Philippines (CBP) encourages mergers between banks in order to create more competition and stability in the system. Also, any bank with a net worth greater than P1 billion can act as a universal bank, that is, as both a commercial bank and a security company. Additional action is needed to reduce currently high financial intermediation costs, expand long-term credit, and remove restrictions against the opening of new bank branches.

Profitability of the banking sector has increased during the latter half of the 1980s. Whereas the PNB was once in serious financial trouble, it is now the third most profitable bank in the nation. Interest rates have remained positive recently, encouraging higher deposits.

Overall, shortages of financial resources represent a major constraint to long-term development. The Philippines still suffers from years of capital flight, and recent political uncertainty has stemmed what many had hoped for in the form of returns of flight capital and new financial investment.

3. Comparative Advantages, Constraints and Opportunities

Despite the vast resources with which the Philippines is endowed, other factors must be considered when measuring the nation's export and investment potential against that of competitors in the region. Before turning to specific advantages and disadvantages, two overriding issues need to be addressed.

First, the nation remains subject to considerable political instability and uncertainty, which overshadows the entire society and has deterred progress on economic fronts. However, the Aquino government has embarked upon an ambitious program for the re-establishment and strengthening of democracy. The government has successfully improved relations with the private sector by focusing increasingly on market forces and a private sector-led development strategy.

Under Aquino, the private sector has assumed many of the roles previously performed by the central government, and is included in decisionmaking early on in the process. Combined efforts have been successful in controlling the public deficit by strictly managing public expenditures, which partially explains the lack of new policies or initiatives. A recent publication characterizes the government as "an economic manager in a centralized system with no center." Despite the obvious difficulties encountered by the present administration regarding administrative reform, the government has made no policies or taken any actions which would inhibit exports or discriminate against foreign investors.

The second overriding issue is financial austerity. Financial constraints continue to affect nearly aspect of government and private sector activity. The country's external debt was calculated at $26.5 billion as of the end of February, a slight drop from $27.6 billion in December 1989. According to the Central Bank the country has retired $2.1 billion of its foreign obligations through various debt reduction schemes over the past four years. Of the global amount, $16.2 billion represents loans to the public sector, $5.5 billion owed by the private sector, and $4.8 billion owed by the Central Bank.

The World Bank estimates that interest payments alone for the period 1990-1992 will be about $2.5 billion per year. This obligation will be unmet unless foreign debt is renegotiated or exports are increased significantly. Until the nation's debt overhang is reduced significantly, it will continue to act as a drag on investment and growth.

The following factors have been identified as specific advantages and disadvantages faced by entrepreneurs operating or interested in business ventures in the Philippines.

ADVANTAGES:

-- The country has a large pool of relatively inexpensive, trainable labor. The Philippines has a highly literate, English-speaking population providing manpower resources for T&I ventures.

-- The country is rich in agricultural and forestry resources. There is an wealth of hardwoods throughout the islands, and grains, fruits, vegetables and other crops benefit from highly favorable growing conditions.

-- The Philippines offers an enormous market of unsatisfied consumer demand with a marked preference for American goods. Most American companies that have invested in the Philippines have enjoyed high rates of return (averaging 20-30 percent).

-- The Philippines is strategically located in the Far East and is therefore open to a wide variety of markets. As noted elsewhere, Asian investors are very active and many feel they could use the Philippines as an export base directed toward the U.S. market.

-- The country is rich in natural resources. It is one of the areas of the world having rich mineral deposits and is a major world producer of gold and copper.

DISADVANTAGES:

-- Enforcement of laws is particularly weak, and this is a problem for exporters and potential investors. Business executives complain constantly that law enforcement is inefficient and the courts are unusually slow in deciding cases.

-- There continues to be excessive red tape at all governmental levels. Red tape breeds corruption. Most government regulations are extraordinarily complicated. Confusing and voluminous rules and opinions dissuade many prospective exporters and investors. Time consuming procedures within the government can delay or eliminate business opportunities.

-- The Philippines currently lacks an adequate, price competitive infrastructure. The enormous demand for and insufficient capacity and quality of current infrastructure have placed major strains on utilities and transportation and communications services. Transportation facilities, especially inter-island shipping and railroads, need massive investments and major organizational overhauls. The road system is inadequate. Power "brownouts" are a frequent, near daily occurrence. Telecommunications are insufficient to address international business requirements. The country's future industrial development is seriously constrained by the impoverished infrastructure.

-- Financing costs are very high and collateral requirements for loans are unreasonable.

-- Despite the abundance of labor noted as an advantage above, true labor costs are higher when compared with those prevailing in Malaysia, Indonesia and Thailand. As a result of the latest wage increases, the wage scales in the Philippines are now 83 percent, 75 percent, and 44 percent higher, respectively than in Malaysia, Indonesia and Thailand.

However, wages are sufficiently attractive that Korean and Taiwanese investors are aggressively seeking to establish export-oriented investments in the Philippines. The immediate outlook is for wages to remain competitive, since domestic firms are reluctant to raise wages due to the relatively large supply of available labor. Foreign users of Filipino labor have significantly higher productivity than their domestic counterparts. Productivity and training have been recognized as priorities, and are at the center of efforts in both the government and private industry.

-- There is an unfavorable policy regarding equity ownership and management control. Likewise, there is weak enforcement of laws protecting intellectual property. Clearcut investment and trade policies are lacking.

The activities of PITO-P will be oriented toward developing the Philippines' true economic advantages (primarily the nation's labor and natural resource base) and ameliorating constraints to private sector T&I. Regarding the latter, particular emphasis will be placed on improving the policy and regulatory environment.

B. LESSONS LEARNED IN RELATED ACTIVITIES

PITO-P seeks to pursue relatively traditional initiatives (i.e., policy, promotion and training and technical assistance), in that these types of interventions have been undertaken successfully in many countries. For both the substantive components and the implementation strategy, the previous

experiences of A.I.D., other donors, and individual host countries provide useful lessons that should be taken into consideration during the Project's implementation phases.

The application of certain "lessons learned" can serve to improve the efficacy of the Project and reduce the prospects of encountering problems and mistakes encountered elsewhere. Specific lessons and their implications are noted in the description of individual project subcomponents. This section examines general lessons drawn from successes and failures experienced in the past.

Projects involving each of the three functional components included in the Project are not new to A.I.D. Several operational lessons can be drawn from this experience. One is the need to engage private sector officials and organizations early and throughout the process of research on policy issues affecting business. In addition, policy studies related to sensitive national issues and/or bureaucratic "turf" should involve policymakers to preclude or minimize adverse reactions to research results.

In A.I.D., both Missions and Central Bureaus have had extensive experience in developing and implementing trade and investment projects. A summary of lessons learned include the following:

Policy analysis and dialogue initiatives are most effective when (1) initial activities focus on concrete policy problems that can be effectively addressed, rather than on overarching issues that are politically sensitive; (2) research and analysis efforts combine qualified local individuals/organizations with external U.S. research teams; (3) host country government and business leaders are "brought into" the process to express their views and identify themselves with the activity, in order to assure that research results are incorporated into the policy formulation process.

Numerous lessons have been learned in the area of trade and investment promotion. These have been summarized in "An Assessment of Investment Promotion Activities" by SRI International in a project for the Bureau for Private Enterprise, documents prepared by the Market and Technology Access Project (MTAP), sponsored by the Bureau for Science and Technology, a review of ANE trade and investment activities (Rudel), a series of studies prepared by the World Bank (Keesing), and other assessments. These analyses identify similar lessons, and most have been incorporated into the proposed PITO-P design. They include a number of useful guiding principles.

Organizations involved in promotion should take an active role in policy discussions, since these entities can act as "ombudsmen" between public and private sectors. The most important promotional tool is "getting the policies right." Promotion programs should begin with relatively modest efforts and expectations, lest large bureaucracies and budgets emerge with limited results. Promotional activities should to the greatest extent possible engage local private sector organizations (chambers, federations,

individual service providers) to leverage resources and take advantage of "in kind" contributions.

A strong emphasis in any promotional program should be placed on putting into place a capability to assist prospective investors or traders directly. Too often active promotion efforts develop leads which are lost due to ineffective followup capabilities.

Turning to an organizational perspective, A.I.D. and other donor agencies have encountered considerable problems when they have tapped local business chambers to implement promotional activities, since the latter are not oriented toward project implementation. However, the experience of USAID/Dominican Republic provides a useful example with the Investment Promotion Council (IPC) project. The IPC is a private organization, created largely under the guidance of the Mission, with a mixed public-private board (dominated by private sector members). The IPC has proven very effective in carrying out investment promotion and policy dialogue functions, in part due to the strength of the IPC staff and the private sector orientation of the organization.

Both Philippine and U.S. organizations are now engaged in trade and investment promotion activities, and many of these should be involved in the proposed project. A number of U.S. government organizations provide resources that should be used. The U.S. and Foreign Commercial Service constitutes a primary contact for U.S. firms interested in the Philippines. The Overseas Private Investment Corporation (OPIC) offers investment insurance and often engages in promotional activities. The Export-Import Bank of the United States (Eximbank) provides trade financing, and the U.S. Department of Agriculture operates a number of programs to assist U.S. agribusiness.

Individual U.S. states are heavily involved in trade and investment promotion throughout Europe and in Canada and Japan, and are increasing their activities in such countries as Taiwan. These state development agencies, as well as the National Association of State Development Agencies (NASDA) offer existing networks to utilize in promotional campaigns. In sum, these organizations collectively offer considerable pools of resources that are often neglected in trade and investment projects. The proposed project aims to engage these resources productively at the working level, but without attempting to add layers of bureaucracy or entering into "turf battles" over functional jurisdiction.

The preponderance of academic and development literature on trade and investment concurs on the point that if designed and implemented appropriately, interventions in the areas of policy analysis and reform, promotion and training can yield major benefits in the form of accelerated private sector-led development. In no country has the policymaking community determined that the policy climate is "sufficient" and warrants no further analysis or change. In addition, all successful developing countries have strengthened rather than closed their promotion organizations, even after

these nations have achieved considerable results in enticing new trade and investment ventures. Similarly, training is a continuing requirement in any country. Each of these activities acts as a catalyst for development progress, and as such has been given an increasing rather than a decreasing priority over time.

ANNEX F. FINANCIAL ANALYSIS

ANNEX F

FINANCIAL ANALYSIS

The financial analysis section is divided into three parts. Part I aims to determine the financial profitability and sustainability of the brokering operations of the Regional Service Centers (RSCs). Part II aims to determine the sustainability of the computerized trade information system that is to be maintained by PHILEXPORT. Part III examines the financial statements (Balance Sheets and Income Statements for the years 1987-1989) of PHILEXPORT to assess it overall performance during the past three years. The Discounted Cash Flow and Internal Rate of Return (IRR) methods of analysis were used for the studies in Parts I and II while financial ratios were used for the analysis in Part III.

I. Financial Analysis of the RSC Brokering Services

In determining the demand for brokering services, a study on the market forces affecting the need for such services would have been appropriate. Since the project aims to concentrate its efforts on SMEs, a major consideration would have been a determination of the number of SMEs and the level of exports attributed to them in each of the regions being considered by the project. Further, a projection of the potential number of new SMEs that will enter the market as a result of the project would have given a greater level of confidence on the results of the analysis. However, due to time constraints, limited resources, and the high costs of obtaining the necessary information, a full blown market study was not feasible. Instead, the present analysis made use of existing data that was made available by DTI, PHILEXPORT, and the Philippine Institute for Development Studies in the form of publications and studies containing trade statistics. Some data was also provided by interviews conducted on trade specialists.

The level of income of each brokering service is largely dependent on the peso value of total exports that the RSC will handle. In computing the brokerage income using the common "5,4,3,2,1" method of fee calculation (explained and illustrated in Assumption #2), the following steps would have been applied: (1) determine the total number of SMEs in the region; (2) out of the total market, determine the number of SMEs which the brokering service is estimated to serve; (3) project the level of exports of the SMEs to be serviced taking into consideration the projected growth rate of exports for the year under consideration; and (4) apply the appropriate brokerage fee on the level of exports handled. However, due to the difficulty in projecting the number of SMEs that will be handled by the brokering activity, more particularly the number of new SMEs that will emerge as a result of the project, the analysis focused instead on the level of exports of the major export products of each region. Applied to the total projected export level for the region was the estimated percentage attributable to SMEs. To this result a percentage was applied to determine the estimated market share in terms of total export value. The appropriate brokerage fee was calculated

based on the resulting market share. The methodology used (i.e., computing income using the level of exports as the key factor instead of using the number of SMEs and the estimated export volume they would provide) is based on the assumption that any increase or decrease in the number of SMEs would result in a corresponding increase or decrease in the level of exports attributable to them.

Under this section, three separate analyses for the proposed RSCs (Manila, Cebu and Davao) are presented. A sensitivity analysis for each RSC was made, using income and market share as variable factors. In the computation of the IRR, the following levels were assumed:

Brokerage Income: fees of 3% and 5% (see Assumption #2)

Market share: (see Assumption #3)

	Manila	Cebu	Davao
Low	5%	5%	3%
Medium	10%	10%	5%
High	20%	20%	10%

These figures, as well as the figures used in the analyses, were provided by the DTI, PHILEXPORT, and a study conducted by the Philippine Institute for Development Studies on exports in 1989.

Assumptions:

1. It is assumed that the percentage increase in the level of exports on the national level will approximate the percentage increase in the regional level. The level of exports used is based on the major export products of each region and excludes any business that is to be provided by new SMEs.

2. Fees are calculated using the "5,4,3,2,1" method, a common method of fee calculation used by brokers for export. Under this fee structure, a broker claims fees on a declining basis as the volume of product exports for any one client increases. To illustrate:

	Export Level	Rate	Fees
1st	$ 1,000,000	x 5%	$ 50,000
2nd	1,000,000	x 4%	40,000
3rd	1,000,000	x 3%	30,000
4th	1,000,000	x 2%	20,000
5th	1,000,000	x 1%	10,000
Total	$ 5,000,000	x 3% (average)	$ 150,000

106

It is assumed that the bulk of clients served will be SMEs whose annual exports could well fall below US $1,000,000, thus leaving them to pay the higher end of the scale or 5 percent. However, for purposes of comparison, the 3 percent fee was used.

3. It is estimated that out of the total projected export for each region, 30% in Manila, 70% in Cebu, and 80% in Davao will be provided by SMEs. The market shares stated previously are applied to the export volume provided by SMEs in each region.

4. A ten-year projection of cashflows was made.

5. Investment in each brokering activity is estimated at $600,000 and is assumed to be invested at the start of the project.

6. Inflation rates used are 10% for local costs and 5% for dollar costs.

The following tables reflect the results of the above studies.

TABLE 1

MANILA REGIONAL SERVICE CENTER BROKERING OPERATIONS
10-Year Projection of Cashflows
(In $ '000s)

Fee	Market Share		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
3%	5% (Low)	Cash Inflows:	277.8	311.2	348.5	397.3	461.3	525.8	590.5	666.1	748.0	843.0
		Cash Outflows:	254.3	244.9	266.7	293.3	326.1	371.4	396.4	436.5	480.1	529.6
		Net Cash Flow	23.5	66.2	81.8	104.0	135.2	154.5	194.1	229.6	267.9	313.4
		Discounted Cashflow	20.4	49.6	53.1	58.4	65.8	65.1	70.8	72.5	73.2	74.2
		Internal Rate of Return	15.5%									
	10% (Medium)	Cash Inflows:	555.6	622.3	697.0	794.6	922.5	1,051.7	1,181.0	1,332.2	1,496.0	1,686.0
		Cash Outflows:	367.9	375.0	415.3	466.7	532.8	612.3	670.3	749.3	835.0	933.7
		Net Cash Flow	187.7	247.3	281.7	327.9	389.7	439.4	510.7	582.9	661.1	752.4
		Discounted Cashflow	127.8	114.6	88.9	70.4	57.0	43.7	34.6	26.9	20.8	16.1
		Internal Rate of Return	46.9%									
	20% (High)	Cash Inflows:	1,111.3	1,244.6	1,394.0	1,589.1	1,845.0	2,103.3	2,362.0	2,664.3	2,992.1	3,372.0
		Cash Outflows:	562.4	592.8	659.2	744.8	855.7	980.3	1,083.7	1,215.5	1,358.6	1,523.8
		Net Cash Flow	548.9	651.8	734.8	844.3	989.3	1,123.0	1,278.3	1,448.8	1,633.5	1,848.3
		Discounted Cashflow	264.8	151.7	82.5	45.7	25.8	14.2	7.8	4.2	2.3	1.3
		Internal Rate of Return	107.3%									

TABLE 1 (cont.)

MANILA REGIONAL SERVICE CENTER BROKERING OPERATIONS
10-Year Projection of Cashflows
(In $ '000s)

Fee	Market Share		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
5%	5% (Low)	Cash Inflows:	463.0	518.6	580.8	662.1	768.8	876.4	984.2	1,110.1	1,246.7	1,405.0
		Cash Outflows	335.5	338.7	374.6	420.3	479.0	550.9	601.4	671.6	747.7	835.3
		Net Cashflow	127.6	179.9	206.2	241.8	289.8	325.5	382.7	438.6	499.0	569.7
		Discounted Cashflow	93.9	97.6	82.3	71.1	62.7	51.9	44.9	37.9	31.8	26.7
		Internal Rate of Return	35.8%									
	10% (Medium)	Cash Inflows:	926.1	1,037.2	1,161.7	1,324.3	1,537.5	1,752.8	1,968.3	2,220.3	2,493.4	2,810.0
		Cash Outflows	497.5	520.2	577.9	652.1	748.0	857.6	945.9	1,060.1	1,184.0	1,327.1
		Net Cashflow	428.5	517.0	583.8	672.2	789.5	895.1	1,022.4	1,160.2	1,309.4	1,483.0
		Discounted Cashflow	228.5	147.1	88.6	54.4	34.1	20.6	12.5	7.6	4.6	2.8
		Internal Rate of Return	87.5%									
	20% (High)	Cash Inflows:	1,852.1	2,074.4	2,323.3	2,648.6	3,075.0	3,505.5	3,936.7	4,440.6	4,986.8	5,620.1
		Cash Outflows	821.7	883.2	984.5	1,115.6	1,286.2	1,471.1	1,634.8	1,837.2	2,056.7	2,310.6
		Net Cashflow	1,030.5	1,191.2	1,338.8	1,533.0	1,788.8	2,034.4	2,301.9	2,603.3	2,930.0	3,309.5
		Discounted Cashflow	359.8	145.2	57.0	22.8	9.3	3.7	1.5	0.6	0.2	0.1
		Internal Rate of Return	186.4%									

109

The above table shows that the Manila brokering service has a positive IRR at any level, indicating the profitability of brokering operations in this area. The table also shows that the Manila brokering activity is sustainable after the project has ended, as indicated by the positive net cashflow for the 10-year period.

TABLE 2

CEBU REGIONAL SERVICE CENTER BROKERING OPERATIONS

10-Year Projectiom of Cashflows

(In $ '000s)

Fee	Market Share		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
3%	5% (Low)	Cash Inflows:	79.1	88.6	99.2	113.1	131.3	149.7	168.1	189.6	212.9	240.0
		Cash Outflows:	229.2	212.4	225.8	240.4	256.4	283.9	293.0	314.0	336.9	362.0
		Net Cash Flow	(150.1)	(123.8)	(126.6)	(127.3)	(125.1)	(134.2)	(124.9)	(124.4)	(123.9)	(122.0)
		Discounted Cashflow	(150.1)	(123.8)	(126.6)	(127.3)	(125.1)	(134.2)	(124.9)	(124.4)	(123.9)	(122.0)
		Internal Rate of Return	negative									
	10% (Medium)	Cash Inflows:	158.2	177.1	198.4	226.2	262.6	299.4	336.2	379.2	425.8	479.9
		Cash Outflows:	229.2	212.4	225.8	240.4	256.5	292.1	307.4	336.1	367.3	402.5
		Net Cash Flow	(71.0)	(35.2)	(27.4)	(14.2)	6.1	7.3	28.8	43.1	58.5	77.4
		Discounted Cashflow	(71.0)	(35.2)	(27.4)	(14.2)	6.1	7.3	28.8	43.1	58.5	77.4
		Internal Rate of Return	below 1%									
	20%	Cash Inflows:	316.3	354.3	396.8	452.3	525.2	598.7	672.3	758.4	851.7	959.8
		Cash Outflows:	267.8	260.0	283.6	312.5	348.4	396.9	425.1	468.8	516.4	570.5
		Net Cash Flow	48.5	94.3	113.2	139.8	176.7	201.8	247.3	289.6	335.3	389.3
		Discounted Cashflow	40.0	64.0	63.3	64.4	67.0	63.1	63.6	61.4	58.5	56.0
		Internal Rate of Return	21.4%									

TABLE 2

CEBU REGIONAL SERVICE CENTER BROKERING OPERATIONS
10-Year Projectiom of Cashflows

Fee	Market Share		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
5%	5% (Low)	Cash Inflows:	131.8	147.6	165.3	188.5	218.8	249.5	280.1	316.0	354.9	399.9
		Cash Outflows	229.2	212.4	225.8	240.4	256.4	283.9	293.0	314.0	342.5	374.6
		Net Cashflow	(97.3)	(64.8)	(60.4)	(51.9)	(37.6)	(34.4)	(12.9)	2.0	12.4	25.4
		Discounted Cashflow	(97.3)	(64.8)	(60.4)	(51.9)	(37.6)	(34.4)	(12.9)	2.0	12.4	25.4
		Internal Rate of Return	negative									
	10% (Medium)	Cash Inflows:	263.6	295.2	330.7	377.0	437.6	498.9	560.3	632.0	709.7	799.9
		Cash Outflows:	249.3	239.4	260.5	286.2	317.8	361.9	385.9	424.6	466.7	514.5
		Net Cashflow	14.3	55.9	70.2	90.8	119.9	137.0	174.4	207.4	243.1	285.3
		Discounted Cashflow	12.6	43.6	48.4	55.3	64.5	65.1	73.2	76.9	79.6	82.6
		Internal Rate of Return	13.2%									
	20% (High)	Cash Inflows:	527.2	590.5	661.3	753.9	875.3	997.8	1,120.6	1,264.0	1,419.5	1,599.7
		Cash Outflows:	341.6	342.7	376.2	418.1	471.0	536.6	582.0	645.8	715.1	794.5
		Net Cashflow	185.6	247.8	285.1	335.8	404.3	461.3	538.6	618.2	704.4	805.3
		Discounted Cashflow	125.7	113.6	88.5	70.6	57.5	44.4	35.1	27.3	21.1	16.3
		Internal Rate of Return	47.7%									

The above table shows that the brokering operations of the Cebu RSC have a negative IRR at the low market share level for both the 3% and 5% brokerage fee levels, indicating non-profitability of brokering services under these circumstances. However, it has been indicated by PHILEXPORT that market share for Cebu will more likely be from 10% to 20%. An examination of the table shows that at these levels, the Cebu brokering activity will have a positive IRR, indicating that profits could be earned except for the medium market share, 3% fee level, which indicates breakeven. It is expected, however, that after the 10th year, exports will continue to increase, and this would increase the IRR of the Cebu brokering service at the medium market share, 3% fee levels and at the other levels. Regarding sustainability, the table indicates that the Cebu brokering operation is not sustainable at the low market share, 3% and 5% fee levels as shown by the negative cashflows over the 10-year period. However, at the medium and high market shares, which the project would more likely get, the brokering services of the Cebu RSC are sustainable after the end of the project, as indicated by the positive cashflows.

113

TABLE 3

DAVAO REGIONAL SERVICE CENTER BROKERING OPERATIONS
10-Year Projection of Cashflows
(In $ '000s)

Fee	Market Share		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
3%	3% (Low)	Cash Inflows:	38.3	42.9	48.0	54.8	63.6	72.5	81.4	91.8	103.1	116.2
		Cash Outflows:	126.9	105.5	113.9	123.2	133.4	154.5	156.8	170.4	185.3	201.6
		Net Cash Flow	(88.6)	(62.6)	(65.9)	(68.4)	(69.8)	(82.1)	(75.4)	(78.6)	(82.2)	(85.4)
		Discounted Cashflow	(88.6)	(62.6)	(65.9)	(68.4)	(69.8)	(82.1)	(75.4)	(78.6)	(82.2)	(85.4)
		Internal Rate of Return	negative									
	5% (Medium)	Cash Inflows:	63.8	71.5	80.1	91.3	106.0	120.8	135.7	153.0	171.9	193.7
		Cash Outflows:	126.9	105.5	113.9	123.2	133.4	154.5	156.8	170.4	185.3	201.6
		Net Cash Flow	(63.1)	(34.1)	(33.9)	(31.9)	(27.4)	(33.7)	(21.2)	(17.3)	(13.4)	(8.0)
		Discounted Cashflow	(63.1)	(34.1)	(33.9)	(31.9)	(27.4)	(33.7)	(21.2)	(17.3)	(13.4)	(8.0)
		Internal Rate of Return	negative									
	10% (High)	Cash Inflows:	127.7	143.0	160.1	182.6	211.9	241.6	271.3	306.1	343.7	387.4
		Cash Outflows:	135.3	116.6	128.1	141.9	158.8	187.8	196.2	217.2	240.0	265.9
		Net Cash Flow	(7.6)	26.4	32.1	40.6	53.1	53.8	75.1	88.9	103.7	121.4
		Discounted Cashflow	(7.6)	26.4	32.1	40.6	53.1	53.8	75.1	88.9	103.7	121.4
		Internal Rate of Return	below 1%									

TABLE 3 (cont.)

DAVAO REGIONAL SERVICE CENTER BROKERING OPERATIONS
10-Year Projection of Cashflows
(In $ '000s)

Fee	Market Share		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
5%	3% (Low)	Cash Inflows:	63.8	71.5	80.1	91.3	106.0	120.8	135.7	153.0	171.9	193.7
		Cash Outflows:	126.9	105.5	113.9	123.2	133.4	154.5	156.8	170.4	185.3	201.6
		Net Cashflow	(63.1)	(34.1)	(33.9)	(31.9)	(27.4)	(33.7)	(21.2)	(17.3)	(13.4)	(8.0)
		Discounted Cashflow	(63.1)	(34.1)	(33.9)	(31.9)	(27.4)	(33.7)	(21.2)	(17.3)	(13.4)	(8.0)
		Internal Rate of Return	negative									
	5% (Medium)	Cash Inflows:	106.4	119.1	133.4	152.1	176.6	201.3	226.1	255.1	286.4	322.8
		Cash Outflows:	127.8	108.3	118.7	131.3	146.5	173.7	180.4	199.3	220.0	243.4
		Net Cashflow	(21.5)	10.9	14.7	20.8	30.2	27.6	45.7	55.7	66.5	79.5
		Discounted Cashflow	(21.5)	10.9	14.7	20.8	30.2	27.6	45.7	55.7	66.5	79.5
		Internal Rate of Return	below 1%									
	10% (High)	Cash Inflows:	212.8	238.3	266.9	304.3	353.2	402.7	452.2	510.1	572.9	645.6
		Cash Outflows:	165.1	150.0	165.4	184.5	208.3	244.2	259.5	288.6	320.2	356.3
		Net Cashflow	47.7	88.3	101.4	119.7	145.0	158.5	192.7	221.5	252.6	289.3
		Discounted Cashflow	40.7	64.2	62.9	63.2	65.3	60.8	63.1	61.8	60.1	58.7
		Internal Rate of Return	17.3%									

The table shows that the brokering service of the Davao RSC is not profitable (i.e., negative IRR) at the 3% fee, low and medium market share levels and at the 5% fee, low market share level. However, market share is more likely to be at the medium to high levels (i.e., 5%-10%) as projected by trade specialists, and fees to be charged are 5% of the export value since most of Davao's exporters are SMEs exporting less that $1.0 million. Based on these levels, the Davao brokering activity will have a positive IRR, although in terms of profitability, the 5% fee, medium market share level is just about breakeven. We expect, however, that IRR will increase to more profitable levels after the 10th year when Davao becomes a more developed region in terms of its ability to manufacture and export its products. In terms of sustainability, the table shows that the Davao brokering operations are sustainable at the 3% fee, high market share level and at the 5% fee, medium and high market share levels.

II. Analysis of the Computerized Information System

This section aims to determine the sustainability of the computerized trade information system after the end of the project. It also aims to establish the profitability of operating the system.

Assumptions:

1. It is assumed that out of the total existing potential clients, 20% in Manila, Cebu and Davao, 10% of foreign buyers, 20% of universities and General Electric, USA will subscribe to the system.

2. The subscription rate is based on the ability of the clients to pay.

3. For purposes of the analysis, information access (rate of usage) by PHILEXPORT is based on 4 hours per day. However, it is expected that the usage will increase as more clients subscribe to the system.

4. Investment to the information system is estimated at $500,000.

5. Inflation rate used is 10%.

The results of the analysis are presented in Table 4.

TABLE 4

Information System Income and Cost Analysis
10-Year Project of Cashflows

	No. of Potential Clients	Number of Sub-scribers	Rate per year (Dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Cash Inflows (subscriber fee):													
Phil. Exporters													
a. Manila	3000	600	200	120,000	144,000	172,800	207,360	248,832	298,598	358,318	429,982	515,978	619,174
b. Cebu	724	145	150	21,720	26,064	31,277	37,532	45,039	54,046	64,856	77,827	93,392	112,070
c. Davao	200	40	100	4,000	4,800	5,760	6,912	8,294	9,953	11,944	14,333	17,199	20,639
Foreign Buyers	450	45	300	13,500	16,200	19,440	23,328	27,994	33,592	40,311	48,373	58,048	69,657
Universities	100	20	100	2,000	2,400	2,880	3,456	4,147	4,977	5,972	7,166	8,600	10,320
General Electric	1	1	1000	0	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Cash Inflows				161,220	194,464	233,157	279,588	335,306	402,167	482,400	578,680	694,216	832,860
Cash Outflows:													
Personnel				39,000	42,900	47,190	51,909	57,100	62,810	69,091	76,000	83,600	91,960
Hardware				32,400					45,000				
Software				6,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Telecommunications				7,540	8,294	9,123	10,036	11,039	12,143	13,358	14,693	16,163	17,779
Information Access Fees				156,000	163,800	171,990	180,590	189,619	199,100	209,055	219,508	230,483	242,007
Other Costs				15,000	16,500	18,150	19,965	21,962	24,158	26,573	29,231	32,154	35,369
Total Cash Outflows				255,940	234,494	249,453	265,499	282,720	346,211	321,077	342,432	365,400	390,115
Net Cashflow				(94,720)	(40,030)	(16,297)	14,089	52,586	55,956	161,324	236,249	328,817	442,744
Discounted Cashflow				(87,083)	(33,835)	(12,664)	10,066	34,540	33,790	89,564	120,586	154,302	191,013
Internal Rate of Return				8.8%									

The table shows that investment in the information system would generate an IRR of 8.8%, indicating that profits could be earned under this component. In terms of sustainability, the information system can support itself after the project through fees charged to subscribers as indicated by the positive cashflows from the fourth year onwards.

III. Analysis of PHILEXPORT's Financial Statements

In analyzing PHILEXPORT's financial statements, the following ratios were computed: current ratio, working capital ratio, and return on investment. A summary of the results is shown below.

	1987	1988	1989
Current Ratio	3.5:1	6.8:1	11.4:1
Working Capital Ratio	47.3%	56.4%	61.8%
Return on Assets	19.3%	63.9%	66.7%

The increasing current ratio indicates PHILEXPORT's improving liquidity position (ability to meet current obligations) over the past three years. While it may seem that there is excess liquidity in 1989, it must be noted that 61.6% of PHILEXPORT's current assets is made up of temporary cash investments. This is in line with management's policy of optimizing the use of its cash.

Working capital ratio has also improved during the last three years. This indicates PHILEXPORT's increasing ability to absorb any fluctuations in revenues since current assets can be turned into cash in a relatively short period of time.

The efficiency in which PHILEXPORT utilizes its assets is reflected by the return on assets ratio. The increasing percentage over the past three years indicates that PHILEXPORT has become more efficient in utilizing its assets. While PHILEXPORT is a non-profit corporation, it is important that net income increases to support its growing operations.

The favorable trend in all of the above ratios reflects PHILEXPORT's satisfactory performance for the past three years, and its strong and improving financial condition indicates sound financial management practices.

ANNEX G. ECONOMIC ANALYSIS

Annex G

ECONOMIC ANALYSIS

The objective of this project is to provide assistance in increasing trade and investment activity in the Philippines through three major components: trade and investment promotion, policy analysis and problem resolution, and training and technical assistance. The trade and investment promotion component consists of three subcomponents: general promotion, information collection and dissemination, and trade transaction brokering.

This economic analysis will demonstrate the project's economic merits through cost effectiveness analyses of selected components and the overall implementation management approach, and through alternative economic rate of return analyses. Additionally, some discussion is provided on recommendations for focusing assistance to minimize project risk.

A. Cost Effectiveness Analyses

This section demonstrates the cost effectiveness of selected approaches for the trade brokering and database improvement elements of the trade and investment promotion component; the policy analysis component; the training and technical assistance component; and the overall implementation management approach.

1. Trade Transaction Brokering Services. The selected approach involves establishing a private brokering firm in each of the three selected regions, namely the National Capital Region (NCR), Cebu City in Region VII (Central Visayas) and Davao City in Region XI (Southern Mindanao). The approach is superior to a number of alternative approaches, such as:

- The status quo, which is dependent mainly on sporadic and chance matching of parties in trade and investment transactions.

- A public sector alternative, since revenue-based services under the selected approach increase the probability of sustainability without government budgetary funding of recurrent costs.

- Duplication of existing government and private sector services, since the planned linkage with the existing government network of services will enhance the effectiveness of government trade and investment promotion activities, including services already provided to small and micro enterprises through the Department of Trade and Industry's (DTI) Small Business Advisory Centers (SBACs).

- A nationwide regional network, since the selected approach will cover the areas of highest potential, avoid excessive overlapping of markets for client firms, and hence contribute to increased probability of project viability.

-- A Metro Manila (NCR)-focused operation since the selected approach will provide the needed brokering services in two major growth centers outside Metro Manila and hence, better fulfill a developmental role for high potential areas outside Metro Manila; and

-- A single firm with a regional network, since relative market separation under the selected approach provides increased motivation for the brokering firms outside Metro Manila to develop potential markets, and the Metro Manila-based brokerage will be motivated either to provide better services relative to its potential or existing competitors or to establish a niche in the Metro Manila market that will sustain expanded provision of needed services for beneficiary firms.

2. Database Improvement. The selected approach involves enhancing the coverage and variety of services of the existing facility. The selected approach is superior to:

-- Setting up another database institution, thereby avoiding additional investment in hardware, helping DTI maximize benefits from its existing facility, and facilitating continued access to marketing information normally not available and affordable to smaller firms; and

-- A private for-profit operation, since the selected approach will help minimize potential conflicts of interest considering the high degree of interlocking business interests (due in part to wealth concentration) in the Philippines, and promote confidence in the system in terms of greater assurance that client welfare is the primary concern.

3. Policy Analysis. The selected approach involves preparation and dissemination of studies aimed at overcoming specific policy constraints faced by traders and investors with topics determined jointly and activities undertaken with beneficiary groups. In addition to parallel activities implemented by the PITO-ASEAN research organizations, PITO-Philippines will identify and implement its own research agenda using both the PITO-ASEAN selected research entities as well as other policy research entities. The selected approach is superior to alternative approaches, such as:

-- Expansion of "basic" research areas, since the selected approach would minimize overlap with and complement many activities that are already ongoing or conducted and thus maximize use of scarce resources.

-- Sole reliance on PITO-ASEAN research organizations, since the selected approach will provide increased flexibility in accessing specific expertise and increasing variety and appropriateness of needed advice.

-- Traditional academic/public sector driven agenda identification and implementation, since the proposed approach would better ensure clientele priorities in research identification, develop an understanding of and appreciation for significant policy issues among beneficiary firms, and provide issues as rallying points for beneficiary firms' advocacy for essential reforms.

-- Traditional academic/public sector implemented research, since the proposed approach will better ensure implementation of major policy prescriptions with beneficiary articulation and identification of necessary steps for reform implementation, management and maintenance; and

-- Traditional academic/public sector policy research, since the proposed research coverage will include issues of practical operational significance to beneficiary firm activities.

4. Training and Technical Assistance. The selected approach involves offering targeted fee-based training and related technical assistance to small and medium enterprises (SMEs) in each regional project area on topics directly related to or improving trade and investment ventures. Specific topics will be identified by participating business organizations and by regional project implementation committees. Services are to be provided by the PITO-ASEAN Contractor or other institutions. The selected approach is superior to alternative approaches, such as:

-- Sole reliance on parallel contracting with or procurement from the PITO-ASEAN contractor, since the selected approach will provide flexibility and choice in addressing specific training and technical assistance needs of individual clientele/beneficiaries.

-- Expanding free public sector-implemented training/technical assistance programs, since the selected approach will better ensure that the beneficiaries will want maximum benefits from fee based activities and hence will articulate and seek necessary and focused rather than desirable training and technical assistance activities, and therefore maximize use of scarce resources; and

-- Holding training in one location such as the Philippine Trade Training Center in Manila, since the selected approach will reduce transportation costs (a few trainors travelling to the regions instead of a group of participants going to Manila), and will facilitate instruction due to its on-site nature.

5. Overall Implementation Approach. The selected approach is to enter into a cooperative grant agreement with PHILEXPORT to provide the needed services directly or by sub-contracting for specific services. The selected approach is superior to other alternative approaches, such as:

-- Public sector implementation, since PHILEXPORT will be less constrained by bureaucracy over and above AID requirements, other agenda that might be inconsistent with and/or implementation of project objectives, and will be subject to greater accountability to the beneficiaries, who could be its own members or members of affiliate trade associations.

-- Private sector general contractor implementation, since PHILEXPORT is a non-profit, non-stock organization, leading to lower administrative/ overhead charges.

-- Implementation by other trade and investment associations, since no other association equals PHILEXPORT in membership (including existing direct relationships with its members) and administrative capability; and

-- Separate AID direct agreements for the different project components, since the proposed approach will reduce additional management oversight responsibilities for the Mission.

B. Alternative Economic Rate of Return Analysis: Trade Brokering Services

Each of the three brokering operations will locate and source markets for Philippine exports and imports. As part of the regional outreach services, the brokerages would seek to source products from existing producers and engage new firms in production to meet export orders. Viability of a brokering service as a going concern would be accomplished through charging fees, as a broker, collected from the importer or the exporter, or both. Consultations during project design with PHILEXPORT, chambers of commerce and individual businessmen in the three regions as well as with relevant GOP agencies provided significant, if mainly qualitative, indications of the market for brokering and data base services.

The economic benefits from brokering activities will come in the form of increased income to firms availing of the brokering services. Increased income will result from increased revenues due to increased exports; from reduced costs due to increased production efficiency through improved production technology and firm management; from reduced costs due to more dependable and/or better quality imported input supplies; and from increased revenues due to reduced levels of unmet orders.

While proxy indicators of market size in terms of exports, imports, investments, and SME number and value added for the project areas are available, these economic benefits are not easily quantifiable, since the mix of firms that would benefit from trade brokering assistance is not known at this time. Also, the effects of brokering assistance on the above different factors are not easily quantifiable. However, while it is not possible to

conduct a standard economic rate of return analysis because of lack of sufficient knowledge on the expected outcome of the brokering activities, the economic viability of the brokerages can be justified in terms of possible improvements in incomes of beneficiary firms.

The economic cost of the brokering services is computed from the financial cost estimates excluding inflation (assuming 5 percent cost escalation for foreign exchange costs, 15 percent for local currency costs, and 10 percent contingency) as follows:

	($000)
Financial FX Cost	898
Share in Evaluation, Audit and Monitoring (FX)	35
FX Shadow Price Adjustment (20%)	187
Financial LC Cost	753
Philippine Private Sector Contribution to Project Costs	450
Share in Evaluation, Audit and Monitoring (LC)	14
Share in Project Management Services	160
Brokerage Operating Costs After PITO-P PACD (years 5 - 10)	621
Total	3,118

Given the above economic cost, the social discount rate in the Philippines is used to determine the required economic impact to justify the investment in the brokering firms. In order to do this, several simplifying assumptions are used: (1) funds for the brokering operations are disbursed immediately upon signing of the grant agreement; (2) economic returns over a ten-year period will flow evenly for each dollar invested; (3) no new returns are attributed to the brokering firms after an assumed institutional life of ten years; and (4) the beneficiary firms will have increased sales and reduced costs with brokering assistance.

A note on shadow price assumptions is in order. For the past 11 years, the National Economic and Development Authority (NEDA) has recommended using a shadow price of 120 percent for foreign exchange and a social discount rate of 15 percent. These shadow price assumptions are based on revalidation of earlier NEDA estimates by E. Medalla (1979) and C. Manalaysay (1979). E. Medalla, et. al. (1990) have recently completed a reestimation of shadow prices. Their results indicate a wide range of possible shadow exchange rates depending on methodology and a number of possible social discount rates in the ten percent range. Upon informal inquiries with NEDA, the NEDA Public Investment Staff advised that they still have to determine which new estimates of shadow prices will be adopted officially. In the meantime, the previously adopted shadow prices should be used for economic project appraisal purposes. Clearly, the use of the old estimate of the social discount rate will result in more conservative analysis. On the other hand, the wide range of alternative estimates of the shadow price for foreign exchange does not permit a similar determination.

Using the NEDA-recommended social discount rate of 15 percent (capital recovery factor for 10 years = .199252), the brokering activities must achieve an annual economic return valued at $621,268 at 1990 prices for ten years. This means that the beneficiary firms should experience an increase in income equivalent to at least a value of $621,268 or P15.532 million (based on an assumed end of 1990 exchange rate of P25.00 = $1.00) annually for ten years as a result of the brokering activities. Otherwise, project funds should be invested in alternative activities.

The likelihood of the brokering services achieving the estimated level of required economic returns may be demonstrated in terms of the required increase: (a) in net income from exports in the three areas of immediate brokering influence; and (b) in value added of small scale manufacturing establishments (SEs) in the three regions.

There are no region-specific financial cost estimates for the three brokerage operations. Hence, the best approximation of the economic costs and the required level of benefits at this time for each firm is one-third (on the average) of the above estimated level of benefits or $207,089 (P5.177 million) per year for a ten year period.

How would this level of annual required benefits compare with net income from exports in each of the three areas? During 1989, National Capital Region exports amounted to $4.626 billion, Cebu exports (the ports of Cebu and Lapu-Lapu City and Mactan International Airport) to $530 million, and Davao City exports to $333 million. In Lamberte, et. al. (1989), a Philippine Institute for Development Studies (PIDS) 1990 forecast for total exports growth for the Philippines is 11 percent, slightly lower than the Central Bank forecast of 12.9 percent. Trend lines fitted by DTI for 1985 through 1989 exports data indicate average annual growth rates of 15.35 percent for the country as a whole and 17.73 percent, 24.26 percent and 10.35 percent for NCR, Cebu and Davao City, respectively. The 1990 forecast for each of the three areas is then obtained by taking the ratio of the growth rate for each area to the national trend growth rate and applying this to 1989 levels assuming that total country exports grow at 11 per cent in 1990. The projected export level for each of the three areas is $5.214 billion for NCR, $622 million for Cebu, and $358 million for Davao City.

Assuming a 5 percent net profit margin before interest and taxes from export revenues, the projected net income from exports for each of the three areas is $261 million for NCR, $31 million for Cebu, and $18 million for Davao City. The required level of annual benefits represents 0.08 percent of NCR net export income, 0.67 percent of Cebu net export income, and 1.15 percent of Davao City net export income. Net income from exports in the three areas need not grow faster than these annual rates in real terms over current rates of growth in the next ten years to justify the economic cost of the brokering operations. In fact, Davao City net export income need not grow more than an

additional 3.45 percent per year in real terms for the next ten years to justify the economic cost of the entire brokering activity.

The likelihood of achieving the real increase in incomes from exports may be demonstrated further by looking at export performance of the three areas of immediate brokering influence. In 1989, the NCR share of total country exports amounted to 59 percent, Cebu exports to 6.8 percent, and Davao City exports to 4.2 percent. Between 1985 and 1989, total Philippine exports increased by 15.4 percent per year or 11.8 percent in real terms (using an average annual U.S. inflation rate of 3.6 percent during the same period). Real export growth for the same period is estimated at 12.8 percent for NCR, 20.7 percent for Cebu, and 6.8 percent for Davao City. If real export growth over the next ten years averages 6.4 percent per year and the same patterns hold, the corresponding projected real export growth rates would be 6.9 percent for NCR, 11.2 percent for Cebu, and 3.7 percent for Davao City. Then assuming further constant 5 percent profitability on exports, the additional real increases in export profits required to justify the brokering services would be satisfied by one-hundredth of the projected total export growth rate for NCR, six-hundredths for Cebu and three-tenths for Davao City.

The required benefits also may be compared with required increases in value added of small enterprises (SEs). Although brokering services may be made available to all firms, the additional increase in value added of SEs may be taken as the required benefits in keeping with PITO-P's developmental role in initiating SE activities, for instance, rather than helping established SEs expand operations to the medium enterprise level.

Based on 1987 DTI data on regional breakdown of the number of manufacturing establishments in the country according to size, SE value added for each of the three regions was obtained in 1987 current prices. This was inflated to 1990 values using inflation rates for total country manufacturing gross value added (based on implicit price index numbers) in the National Income Accounts for 1987-1989 of 19.3 percent and an assumed inflation rate of 15 percent for 1990. The estimated SE 1987 value added in 1990 prices is P6.158 billion for the National Capital Region, P746 million for Region VII, and P480 million for Region XI. The required annual benefit stream for each brokering firm represents 0.08 percent of Metro Manila 1987 SE value added in 1990 prices, 0.69 percent for Region VII, and 1.08 percent for Region XI. Region XI SME value added need grow only by an additional 3.2 percent per year in real terms for the next ten years to justify the cost of the entire brokering activity.

The economic benefits of the brokering services may come both from transactions arising from client firms served during the life of the project (including transactions during and continuing after the project) and from additional new activities arising from brokering services provided after project completion. Considering the small magnitude of required real increases in firm income, sufficient economic benefits are expected to come

126

from the brokering client firms benefited only during the life of project. It also may be noted that the required economic benefits are calculated in terms of either increased income from exports in the immediate influence area of the brokerages or increased regional value added of existing small establishments in the three regions. However, additional benefits are expected from brokerage-assisted importations and for medium scale (and perhaps even large) establishments in the relevant regions. These benefits increase the probability of increased income of firms served during the life of project. This means continued operation of the brokering services after project completion is not essential to the component's economic viability. Nevertheless, the financial analysis section indicates that the trade brokering operations appear able to be self sustaining after project completion. Brokerage sustainability improves prospects for overall project economic viability even more.

The only other major revenue-generating project activity is the additional investment in or expansion of DTI's database services. A separate economic analysis appears unnecessary since the economic cost of this activity is so small relative to the magnitude of potential benefits.

C. Alternative Economic Rate of Return Analysis: Entire Project

It may be argued that the brokering services would not be as effective without the support of the other project components. Maintenance of and progress in an appropriate macroeconomic and commercial policy environment will provide favorable price signals to the beneficiary firms to induce them to initiate and/or expand production activities. Training and technical assistance will assist the beneficiary firms in technological innovations to improve productivity. General promotional activities will increase knowledge of markets and help beneficiary firms realize increased sales. All these will result in additional economic benefits in the form of increased incomes for beneficiary firms through increased sales and reduced operating costs for a given scale of operations as well as through increased investments. However, benefits quantification for these other project components is not easy because the specific reforms, training, and technical assistance will be determined during project implementation. Moreover, even if more specific information is available, it also is not easy to quantify and separate the effects of these subcomponents on the beneficiary firms from existing similar activities. Hence, the following analysis attempts to establish PITO-P's economic merits using the same alternative economic rate of return approach.

PITO-P's economic cost is computed from the financial cost estimates excluding inflation (again assuming 5 percent cost escalation for foreign exchange costs, 15 percent for local currency costs, and 10 percent contingency), as follows:

	($000)
Financial FX Cost	3,884
FX Shadow Price Adjustment (20%)	777
Financial LC Cost	4,443
Philippine Private Sector Contribution to Project Costs	1,752
Additional GOP Costs	1,051
Brokerage Operating Costs After PITO PACD (years 5 - 10)	621
Total	12,528

Using a 15 percent social discount rate, PITO-P must achieve an annual economic return of $2.496 million (P62.406 million) annually for ten years. This implies that the beneficiary firms should experience an increase in income equivalent to $2.496 million or P62.406 million annually for ten years to merit investment of funds in PITO/P.

The likelihood of achieving the required annual level of PITO-P benefits may be demonstrated in relation to the required increase in net income from exports for the immediate influence areas of the brokering firms (NCR, Cebu and Davao City) and the required increase in value of added of small establishments (SEs) in the three regions (NCR, Region VII and Region XI). The required annual level of benefits represents 0.81 percent of estimated net income from total 1990 exports ($309.7 million in 1990 prices) and 0.84 percent of total 1987 SE value added (P7.384 billion in 1990 prices) for the above mentioned areas. Net income from total NCR, Cebu and Davao City exports need only increase by an additional 0.81 percent per year in real terms over the next ten years to justify the economic investment in PITO-Philippines. Total NCR, Region VII and Region XI SE value added need only increase by an additional 0.84 percent per year in real terms over a ten year period.

It might be noted that PITO-P economic benefits will be in addition to those arising from the PITO-ASEAN Project. The same approach is used to demonstrate the likelihood of achieving the combined economic benefits from the two projects. The economic cost of the PITO-ASEAN Project is computed below for the Philippines. Equal allocation among the six member countries is assumed. Available information on the the PITO-ASEAN budget does not separate cost escalation and contingency. To eliminate cost escalation, a 5 percent cost escalation factor is assumed for foreign exchange costs, 15 percent for local currency costs, and 10 percent for contingency. The FY 1989 costs are inflated to 1990 values while the FY 1991 to 1993 values are deflated to 1990 values. The AID contribution to the project is assumed to be all for foreign exchange costs.

	($000)
Financial FX Cost	2,060
FX Shadow Price Adjustment (20%)	412
Financial LC Cost	464
Total	2,936

Again, using the social discount rate of 15 percent, the PITO-ASEAN investment in the Philippines should yield a level of annual benefits amounting to $585,004 (or P14.625 million) over a period of ten years. The required annual benefits for the combined PITO-P and PITO-ASEAN Projects amount to $3.081 million (or P77.031 million). Estimated net income from total NCR, Cebu and Davao City exports need only increase by an additional one percent per year in real terms over the next ten years to justify the economic investment in both projects. Total NCR, Region VII and Region XI SE value added need only increase by an additional 1.04 percent per year in real terms over a ten year period.

D. Additional Considerations for Minimizing Project Risk

Both PITO-ASEAN and PITO-P projects have policy analysis components that would support greater likelihood of realization of project benefits. This support comes in the form of identifying specific economic and administrative reform implementation actions that would complement overall reform of the GOP's trade and investment regime. Due to its crucial role in the Philippine economy's sustainable growth objectives and importance to addressing the external debt problem, trade and investment regime reform is a key element of the Philippine structural adjustment program.

Philippine and other researchers have periodically assessed progress in reform of the trade and investment regime. R. Baldwin (1990) provides a recent overview. While some liberalization has occurred in the 1980s and there are encouraging signs that more government officials and private producers are recognizing the importance of increasing exports, the trade regime is still significantly biased toward import substitution. The slowdown in export growth relative to import growth and the resulting increase in the trade deficit is due in large part to this bias and the growing overvaluation of the peso. The import liberalization program and the creation of incentives to export have been insufficient to offset these two factors. In view of the likely shift of public assistance toward Eastern Europe, official foreign capital inflows into the Philippines may not be sufficiently high to prevent a balance of payments crisis.

Based on 1988 data, the Philippine trade regime remains highly protectionist, especially in manufacturing. The average effective rate of protection for all sectors was 36.5 percent and for agriculture, only 15 percent. Among the very highly protected manufacturing sectors are paper,

rubber, leather, plastic products, nonmetallic mineral products, chemicals and chemical products, and machinery, including electrical equipment and machinery. Moreover, exporters are still penalized by being required to pay more for their intermediate inputs than the international market prices for these products.

The encouragement given to economically efficient production by import liberalization can be offset either by exchange rate changes that overvalue the currency in terms of the international competitiveness of Philippine goods and industries or by rising interest rates that choke off investment opportunities. Unfortunately, both of these developments are occurring.

Investment incentives have been used to influence the pattern of resource allocation. However, these have not been sufficient to offset the import substitution bias and have introduced additional artificial biases against export-oriented, rural-based, labor-intensive and smaller firms. Incentives in the form of export subsidies are no longer acceptable under the General Agreement on Tariffs and Trade.

The import liberalization program is generally on schedule. However, biases in resource allocation remain. In June 1990, the GOP Cabinet approved a number of measures to accelerate reform progress, including reduced restrictions on foreign investment, increased competitiveness of the exchange rate, and refocusing of the Board of Investment's industrial and investments policies to support trade and investment promotion. The GOP also plans to simplify the tariff structure. However, more definitive actions need to made in these areas and progress remains to be seen.

Most of the remaining reforms require politically difficult decisions. While AID and the other donors are supporting the GOP in achieving them, including support through the PITO projects, the timing of reform progress in the remaining areas is unpredictable. If exchange rate reforms do not occur early enough and at a sufficient level, further progress in the import liberalization program could be arrested and may even be reversed. The success of exchange rate policy reform and other expenditure switching (or resource allocating) policy reforms is also dependent on the timing and effectiveness of expenditure-reducing measures if the real value of the peso is to be maintained, for instance.

If reasonable confidence on reform progress in resource allocating policies can be assumed, then PITO-P assistance may be made available to all sectors and industries with perhaps some focusing on its developmental role on selected industries and areas. However, with insufficient reform progress, it is possible that PITO-P assistance may be provided unwittingly to overprotected, import-substituting industries. Hence, in addition to the developmental focus of PITO-P assistance, the implementing organization should adopt criteria to ensure that project assistance will be made available only to export-oriented industries or in those areas where the Philippines has a true comparative advantage (or where effective protection rates are low).

One measure of comparative advantage is domestic resource cost. However, since its computation requires extensive data and is rather complex, domestic resource cost estimates are not updated as frequently as desirable. A proxy indicator is the effective protection rate. N.A. Tan (1979) found a positive and significant rank correlation between domestic resource cost and effective protection rate using data for 77 Philippine production sectors. Effective protection rates would change as reform progress (or reversal) in expenditure switching policies, including trade liberalization, takes place. Hence, the implementing organization, with assistance from the policy analysis component, should identify a list of industries for PITO-P assistance taking into account the degree of effective protection and should update that list as new estimates of industry-specific effective protection rates become available.

ANNEX H. ADMINISTRATIVE ANALYSIS

ANNEX H

ADMINISTRATIVE ANALYSIS

Extensive interviews in Manila, Cebu and Davao have verified that a number of factors significantly inhibit Filipino enterprises from active competition in the international marketplace. Chief among these are (1) inappropriate policy structures; (2) the near absence of readily accessible, reliable and timely information; and (3) the inadequacy of institutions associated with trade and investment to maximize their potential. This analysis examines the institutional capacities and interests of organizations that can or should participate in PITO-P.

A. POTENTIAL PROJECT COORDINATORS

Aside from the much needed assistance on policy reform and infrastructure, countrywide inquiries have discovered a tremendous need to assist Filipino SME's and entrepreneurs in obtaining market intelligence and to learn how to take advantage of it, i.e., identifying and taking advantage of "real time" business opportunities in the United States and around the world. This includes such information as international product demand, the identity of potential importers, quality requirements, pricing, product standards, seasonality, and import regulations in target countries.

The PID identified three private sector organizations as possible candidates for the critical role of Project Coordinator. They are PHILEXPORT, COPE and BRETA. The structure, capabilities and potential of each were examined by the Project design team. A summary of this analysis is provided below.

1. The Philippine Exporters Foundation (PHILEXPORT)

PHILEXPORT, a non-profit service association, was created by Executive Order No. 992 in 1984 to address the following goals:

- -- Expressing the views of the exporting sector and coordinating with the government in the development and promotion of exports.
- -- Providing specific programs and services vital to the operation and quick growth of exports.
- -- Establishing the network for trade information gathering and dissemination.
- -- Linking with overseas trade and promotion associations.

The organization is governed by a 22-person board of trustees, five of whom represent the government. Its key operating officers are Atty. Maria Rosario Franco, President and Mr. Abelardo Tolentino, VP - Promotion. Both are highly experienced in the field of exports having worked for many years with DTI. Atty. Franco, a highly regarded and skilled administrator, has held the post of Director of the Bureau of Export Trade Development and other key positions during the last 23 years before resigning to take this position.

PHILEXPORT currently has 465 members, with an additional increase of at least 50-100 new members to be added this year. Its current members are estimated to account for nearly 75 percent of all Philippine exports.

PHILEXPORT provides the following services to its members:

-- Custom-bonded warehouses. They operate two such facilities which enable exporters to import raw materials tax and duty-free.

-- Special customs group. This is a special creation of the Commissioner of Customs for PHILEXPORT to process its documents. They refuse to receive anything more than legally mandated fees (will not accept any bribes).

-- Outreach. PHILEXPORT publishes a monthly news letter of local and international trade opportunities.

-- Investment matching program. This program seeks to match local exporters with interested foreign buyers, and to assist firms to access capital and technology, particularly in the form of joint ventures.

-- International trade fairs. PHILEXPORT participates in trade fairs to provide national and international exposure for Philippine products.

-- Computerized trade information. PHILEXPORT is establishing the link between BETP/UNDP Computerized Trade Information System to allow its members access to worldwide trade related databases.

PHILEXPORT has developed increasingly strong institutional capabilities. The organization is fully able to sustain current activities through funds received from (1) income derived from its two customs bonded warehouses, (2) subscriptions to the monthly trade publication which it produces entirely in-house, and (3) annual membership dues.

In addition, PHILEXPORT has been highly successful in networking and management. For example, more than 5,000 local exporters and foreign buyers subscribe to the monthly trade publication. PHILEXPORT is also in the process of opening regional offices in Cebu and Davao. The organization's

lean management and staff (50-75 employees including those in the warehouses) appear to be professional and experienced in each of their particular areas of endeavor.

2. Confederation of Philippine Exporters (COPE)

COPE was organized in 1973 with the following goals and objectives:

-- To provide an appropriate forum for export traders.

-- To promote cooperation and coordination between exporters and the government.

-- To generate and disseminate trade information to its members.

COPE is managed by a 25-person board of trustees, 11 representing the government: Trade and Industry, Finance, Natural Resources, Agriculture, Tourism, Foreign Affairs, National Defense, NEDA, Central Bank, Philippine National Bank, and the Development Bank of the Philippines.

COPE currently has a membership of approximately 250 members, but activity is at a standstill while awaiting a possible merger with PHILEXPORT. Meetings are held every two months or so. A high percentage of COPE members are also members of PHILEXPORT.

At one time, COPE offered the following services to its members:

-- Dissemination of trade inquiries to Philippine exporters.

-- Coordination with the government of policy/trade issues.

-- Assistance in the simplification of export procedures and documentation.

-- Networking with international trade associations.

-- Organizing national and regional trade fairs.

COPE has fewer members than PHILEXPORT and is essentially without any income other than its membership dues. Its services have almost come to a virtual standstill, especially with a working staff of only seven including watchmen, secretaries, and office boys.

3. Board of Investments-Registered Export Traders Association (BRETA)

BRETA was organized in April 1986 upon the directive of DTI Secretary Jose Concepcion. It was designed to play the role of an active subgroup under Philippines Inc., a joint project between the government and

traders to encourage an accelerated economic recovery. Essentially, this is an attempt to copy such entities as Japan, Inc. and Korea, Inc. COPE was envisioned to become the nucleus of the Joint Export Marketing Consortium.

BRETA is essentially an interest group association for Philippine trading companies (as opposed to manufacturers, who are members of PHILEXPORT and/or COPE). BRETA includes among its members the Philippine International Trading Corporation (PITC), the international trading arm of the government. BRETA reportedly has approximately 200 members.

This organization approached AID with the idea of establishing a comprehensive market intelligence system that would provide timely information to Philippine traders by linking with the World Trade Center network system in New York.

Other than its supposed role as catalyst between the private sector and government, BRETA has little in the way of institutional presence or capabilities. BRETA has a very limited budget, no staff, and no offices. It relies entirely upon PITC for its logistical requirements. The membership of BRETA is considered "young and aggressive," and interested in pressing for market-oriented policy strategies. As such, BRETA should be included as a participant in PITO-P activities.

4. Conclusion

An initial analysis and evaluation of each of these organizations indicates that only PHILEXPORT is in a position to carry out the role of Project Coordinator. Its organizational, managerial and financial capabilities are strong in comparison to those of COPE and BRETA. Although COPE has proven potential, its current inactivity is based upon the pending merger with PHILEXPORT. It is only a matter of time and final negotiations before they are merged, possibly before the end of 1990. BRETA has neither organization, management, nor independent financing sufficient to implement the Project.

B. COLLABORATING ORGANIZATIONS

With very few exceptions, those interviewed over the course of project design stated that their first priority should be an organized and unified approach to the serious problem of addressing ineffective or counter-productive government policy. Other than the three institutions noted above, three such organizations, two private and one public, are most often mentioned as playing important roles in policy dialogue, and with varying potential to be significantly more useful in fostering trade and investment. These are the Philippine Chamber of Commerce and Industry (PCCI), the American Chamber of Commerce (AMCHAM), and the Department of Trade and Investment (DTI).

1. The Philippine Chamber of Commerce and Industry

The PCCI is an organization composed of business units representing entrepreneurial activity, commerce, manufacturing and processing industries, services, and business associations. It serves as the forum for the development of a consensus of the business community on matters of economic significance. PCCI is the recognized official representative of the private sector in international business forums.

PCCI offers the following services to its members:

-- Representation to the government - the PCCI is represented in several key government offices such as NEDA Regional Development Councils, National Wage Council, National Productivity Commission, MTI 25 industry sectors, Employees Compensation Commission, etc.

-- Trade information - reference material are available to the public. PCCI attempts to disseminate valuable trade information.

-- Marketing assistance - bids, tenders and trade inquiries are referred exclusively to PCCI members.

-- Conferences, seminars, workshops - these are offered throughout the year and are often attended by high level government officials.

-- Overseas trade missions - several missions abroad are organized each year. The PCCI also arranges meetings between local businessmen and visiting business interested in doing business with the country.

-- Export documentation - certificates of origin and other trade facilitation papers are issued upon request of members.

-- Training and scholarships - are made available to members in varied fields.

Regional chambers and industry associations are members in PCCI. For example, twelve industry groups in Cebu are affiliated with the Cebu Chamber of Commerce and Industry (CCCI), which in turn has ties to PCCI. In Davao, the Davao City Chamber of Commerce and Industry (DCCCI) is also associated with PCCI.

2. The American Chamber of Commerce (AmCham)

AmCham is theoretically similar to the PCCI in form and function. It exists to foster and assist U.S. importers and exporters to compete successfully in the Philippines. As in other countries, AmCham is often

called upon to provide a U.S. business perspective on policy and other commercial issues. Several regional AmCham chapters have recently been established. A chapter was set up in Cebu in 1989.

3. The Department of Trade and Investment

DTI is a large government agency dedicated to all aspects of trade and investment. DTI is composed of four semi-independent sub-groups: (1) the Industry and Investments Group, (2) the Administrative and Technical Services Group, (3) the International Trade Group, and (4) the Policy, Planning, and Special Concerns Group. Within each group is another unit that concentrates on a specific trade concern: the Board of Investments (BOI) is in the first group, the Bureau of Patents, Trademarks, and Technology Transfer (BPTTT) in group 2, the Bureau of Export Trade Promotion (BETP) in group 3, and the Bureau of Import Services (BIS) in group 4.

Among DTI's activities are:

-- Technology and infrastructure support for various industrial sectors.

-- Rehabilitation, improvement, and development of Export Processing Zones (EPZ's).

-- Consulting services in fourteen industrial sectors.

-- An internationally-focused investment program.

-- Preparation of pre-investment studies and the formulation of development strategies.

-- Development of a sophisticated computer-based marketing information system to be made available throughout the country over a three-five year period, depending upon budgetary constraints.

Budgetary regulations prohibit DTI from making any profit on the dissemination of its proprietary computer database. DTI trade officials have approached USAID seeking a vehicle to put this information into the hands of the private sector, providing the latter is willing to accept certain financial requirements (e.g., sharing of subscription costs, etc.).

The Board of Investment (BOI) is the operative arm of the Industry and Investments Group. Among BOI's functions are:

-- Evaluation of applications for investment under Book One of the Omnibus Investments Code.

-- Endorsement to operate custom-bonded manufacturing warehouses.

-- Granting of authority to import tax-free and duty-free capital equipment.

-- Granting of tax credits on raw materials and supplies under standard, advanced, and regular schemes.

-- Granting of tax credits on net value earned and net local content.

-- Supervision of registered enterprises.

The Bureau of Export Trade Promotion is the DTI unit which has designed and developed DTI's computer-based information system for the business community nationwide. It provides the following information to the private sector: product/market guides; general market guides; market statistics (domestic and international); a buyers' directory; an exporters' directory; and marketing strategies. Its services are: (1) consulting, (2) market research, and (3) domestic and international promotion.

4. Brokering Services

Several existing organizations, both for-profit and not-for profit, have expressed interest in developing a fee-for-service brokering service to arrange trade transactions between Philippine and U.S. firms. The "match-making" of buyers and sellers is at the center of trade development. PHILEXPORT, as project coordinator, will issue competitively let contracts or cooperative agreements with not-for-profit or for-profit firms in each of the three regional project areas. Winning U.S. and/or Philippine organizations will be expected to have trade information networks in the Philippines and U.S., thus joint ventures are likely. Firms could bid on any or all three regions, but would be selected for only one. The intention is to introduce a competitive element among them.

4. Conclusion

The PCCI and DTI (along with its subgroups) appear to have both the administrative and organization capacity to support the PITO-P Project. They have mutual concerns and goals, yet should not constitute a duplication of efforts or products. AmCham is working to develop its overall strategy and could play an effective supporting role in PITO-P.

ANNEX I. CERTIFICATION OF GRAY AMENDMENT

CERTIFICATION PURSUANT TO THE UTILIZATION OF GRAY AMENDMENT ORGANIZATIONS

I, MALCOLM BUTLER, Director of the Agency for International Development in the Philippines, having taken into account the potential involvement of small and/or economically and socially disadvantaged enterprises, do hereby certify that in my judgment the technical assistance required under this program can best be procured through open competition. However, all other factors being equal, preference will be given to firms that submit joint proposals with Gray Amendment-satisfying firms. Furthermore, for the scheduled external evaluations, joint efforts involving both local expertise and Gray Amendment-satisfying organizations are anticipated. My judgment is based on the recommendations of the Project and Mission Review Committees.

Malcolm Butler

MALCOLM BUTLER
Director, USAID/Philippines

SEP 10 1990

DATE

ANNEX J
JUSTIFICATION FOR SELECTION OF PHILEXPORT

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA GEN. REG. NO. 27
5010-104

ANNEX J

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Stanley D. Heishman DATE: June 6, 1990

FROM : Bruno Cornelio
Chief, PESO

Problem: To justify the selection of the Philippine Exporters Foundation (PHILEXPORT) as the recipient of an assistance award for implementation of the Private Investment and Trade Opportunities - Philippines (PITO-P) Project.

Discussion: The Private Investment and Trade Opportunities - Philippines (PITO-P) Project will contribute to long-term economic growth in the Philippines through the development of private sector trade and investment. PITO-P will establish a mechanism to increase trade and investment activity in the country through promotional services and assistance, training and technical assistance and policy analysis and reform.

After careful consideration, USAID in collaboration with the Department of Trade and Industry determined that this activity would be best delivered through a Cooperative Agreement between USAID and a private Filipino entity which would serve as project coordinator for the project. The nature of PITO-P is such that the project coordinator will provide assistance, directly and/or indirectly through other parties, to private businesses to achieve the project's objectives. Since the bulk of activities within this cooperative agreement center on the transfer of funds to others to accomplish an economic purpose rather than fees for services and since the level of success and therefore, the exact outputs of our assistance cannot be fully known or predicted in advance, a contractual arrangement is not appropriate.

At the same time, the various components of PITO-P are complex and could require modification during the course of project implementation. Since USAID wishes to retain approval and/or concurrence rights over these potential changes in criteria or policy during the life of project, substantial involvement by USAID is required. Therefore, a cooperative agreement rather than a grant is appropriate.

It was also determined that the most effective way to achieve results through a cooperative agreement would be with an existing Filipino non-profit, non-governmental organization, focused on trade and investment interests of the Philippines, with sufficient management capacity and a proven track record of performance in the private sector.

A local rather than a U.S. organization is required since the small and medium business environment in the target areas (Manila, Cebu and Davao) is regionally diverse and ethnically complex and could only addressed by an indigenous organization. For-profit firms are excluded because the nature of the proposed task precludes the use of a contractual mechanism.

Within these parameters, three potential organizations were identified through a process which included a review of a large field of NGO's/PVO's and other non-profit organizations including both those already registered with USAID and others. As a result of this exercise the Philipine Exporters Foundation (PHILEXPORT) was determined to be the entity with a predominant position in the area of trade and investment promotion and the capability to carry out the project envisioned in PITO-P. In addition to PHILEXPORT, the final analysis covered two other organizations as potential recipients: Confederation of Philippine Exporters (COPE) and Board of Investment Registered Export Traders Association (BRETA). A full analysis of these three entities is attached.

The financial resources, management and network of PHILEXPORT are unequaled by the other two short listed organizations. PHILEXPORT's unique strengths are highlighted as:

MEMBERSHIP

PHILEXPORT has 465 member - exporters which are generally categorized as direct exporters, indirect exporters or entities that contribute to exports (i.e. banks, shipping & transport companies, brokers). PHILEXPORT members are estimated to account for some 75% of total Philippine exports.

SERVICES

PHILEXPORT already provides the following services to its members:

1. Customs bonded warehouses. PHILEXPORT operates two of these bonded warehouses which enable exporters to import their raw materials tax and duty-free.

2. Special customs group. This is a special creation of the Commissioner of Customs for PHILEXPORT to process its documents.

3. Trade Opportunities in the Philippines series. This is a monthly publication that provide members with local and international trade information.

4. Investment matching program. This involves matching local exporters and foreign buyers for their capital, technology or joint venture requirements.

5. International trade fairs. PHILEXPORT participates in trade fairs to provide exposures for Philippine products.

6. Computerized trade information. PHILEXPORT is establishing a link with Bureau Export Trade Promotion (BETP)/United Nations Development Program (UNDP) Computerized Trade Information system to enable its members access to worldwide data bases.

CAPABILITIES

1. Financial resources. PHILEXPORT is able to sustain its operation from the following regular sources:

   - Income derived from members for the use of two customs bonded warehouses;
   - Subscriptions to the monthly trade publication;
   - Annual dues of members; and
   - Proposed 0.625% import tax to support exporters current proposal by Congress.

2. Networking. PHILEXPORT has a direct client base of some 5,000 local exporters and foreign buyers subscribing to the monthly trade publication. To expand its base locally, PHILEXPORT is in the process of opening chapters in Cebu and Davao. Access to international data bases thru BETP/UNDP is also in process.

3. Management. PHILEXPORT has professional and experienced key officers running their day-to-day operation.

The impending merger between COPE and PHILEXPORT, which DTI is initiating is expected to result in a stronger PHILEXPORT which will be the surviving entity.

In the opinion of PESO, PHILEXPORT clearly has a predominant capability within the field of eligible project coordinator organizations to implement the Private Investment and Trade Opportunities - Philippines Project.

Recommendation: That you concur in the determination of the technical office (PESO): (a) that PHILEXPORT has a predominant capability to implement the proposed PITO-P project based on its experience in the trade and investment area, its technical competence in these areas as well as its knowledge of and existing relationships with the Philippine trading private sector and with many of PITO-P's target SME beneficiaries; and (b) that a non-competitive award of a cooperative

agreement to PHILEXPORT to carry out the proposed assistance activity is fully justified in accordance with the requirements established in paragraph 2B3(b) of Handbook 13.

Concur: SD Heishman
Do not Concur:
Date: 6/6/90

Attachment: Institutional Analysis

INSTITUTIONAL ANALYSIS

Extensive interviews in Manila, Cebu and Davao have verified that a number of factors significantly inhibit Filipino Enterprises from active competition in the international marketplace. Chief among these are (1) inappropriate policy structures; (2) the near absence of readily accessible, reliable, affordable and timely information; and (3) the inadequacy of institutions associated with trade and investment to maximize their potential. This analysis examines the institutional capacities and interests of organizations that can or should participate in PITO-P.

POTENTIAL PROJECT COORDINATORS

Aside from the much needed assistance on policy reform and infrastructure, countrywide inquiries have discovered a tremendous need to assist Filipino SME's and entrepreneurs in obtaining market intelligence and to learn how to take advantage of it, i.e., identifying and taking advantage of "real time" business opportunities in the United States and around the world. This includes such information as international product demand, the identity of potential importers, quality requirements, pricing, product standards, seasonality, and import regulations in target countries.

A.I.D. has identified three private sector organizations as possible candidates for the critical role of Project Coordinator. They are PHILEXPORT, COPE and BRETA. The structure, capabilities and potential of each were examined by USAID/Philippines. A summary of this analysis is provided below.

1. <u>The Philippine Exporters Foundation (PHILEXPORT)</u>

PHILEXPORT, a non-profit service association, was created by Executive Order No. 992 in 1984 to address the following goals:

- Expressing the views of the exporting sector and coordinating with the government in the development and promotion of exports.
- Providing specific programs and services vital to the operation and quick growth of exports.
- Establishing the network for trade information gathering and dissemination.

- Linking with overseas trade and promotion associations.

The organization is governed by a 22-person board of trustees, five of whom represent the government. Its key operating officers are Atty. Maria Rosario Franco, President and Mr. Abelardo Tolentino, VP-Promotion. Both are highly experienced in the field of exports having worked for many years with DTI. Atty. Franco, a highly regarded and skilled administrator, has held the post of Director of the Bureau of Export Trade Development and other key positions during the last 23 years before resigning to take this position.

PHILEXPORT currently has 465 members, with an additional increase of at least 50-100 new members to be added this year. Its current members are estimated to account for nearly 75 percent of all Philippine exports.

PHILEXPORT provides the following services to its members:

- Custom-bonded warehouses. They operate two such facilities which enables exporters to import raw materials tax and duty-free.

- Special customs group. This is a special creation of the Commissioner of Customs for PHILEXPORT to process its documents. They refuse to receive anything more than legally mandated fees (will not accept any bribes).

- Outreach. PHILEXPORT publishes a monthly news letter of local and international trade opportunities.

- Investment matching program. This program seeks to match local exporters with interested foreign buyers, and to assist firms to access capital and technology, particularly in the form of joint ventures.

- International trade fairs. PHILEXPORT participates in trade fairs to provide national and international exposure for Philippine products.

- Computerized trade information. PHILEXPORT is establishing the link between BETP/UNDP Computerized Trade Information System to allow its members access to worldwide trade related databases.

PHILEXPORT has developed increasingly strong institutional capabilities. The organization is fully able to sustain current activities through funds received from (1) income derived from its two customs bonded warehouses, (2) subscriptions to the monthly trade publication which it produces entirely in-house, and (3) annual membership dues.

In addition, PHILEXPORT has been highly successful in networking and management. For example, more than 5,000 local exporters and foreign buyers subscribe to the monthly trade publication. PHILEXPORT is also in the process of opening regional offices in Cebu and Davao. The organization's lean management and staff (50-75 employees including those in warehouses) appear to be professional and experienced in each of their particular areas of endeavor.

2. Confederation of Philippine Exporters (COPE)

COPE was organized in 1973 with the following goals and objectives:

- To provide an appropriate forum for export traders.
- To promote cooperation and coordination between exporters and the government.
- To generate and disseminate trade information to its members.

COPE is managed by a 25-person board of trustees, 11 representing the government: Trade and Industry, Finance, Natural Resources, Agriculture, Tourism, Foreign Affairs, National Defense, NEDA, Central Bank, Philippine National Bank, and the Development Bank of the Philippines.

COPE currently has a membership of approximately 250 members, but activity is at a standstill while awaiting a possible merger with PHILEXPORT. Meetings are held very two months or so. A high percentage of COPE members are also members of PHILEXPORT.

At one time, COPE offered the following services to its members:

- Dissemination of trade inquiries to Philippine exporters.

- Coordination with the government of policy/trade issues.
- Assistance in the simplification of export procedures and documentation.
- Networking with international trade associations.
- Organizing national and regional trade fairs.

COPE has fewer members than PHILEXPORT and is essentially without any income other than its membership dues. Its services have almost come to a virtual standstill, especially with a working staff of only seven including watchmen, secretaries, and office boys.

3. Board of Investments Registered Export Traders Association (BRETA)

BRETA was organized in April 1986 upon the directive of DTI Secretary Jose Concepcion. It was designed to play the role of an active subgroup under "Philippines, Inc.", a joint project between the government and traders to encourage an accelerated economic recovery. Essentially, this is an attempt to copy such entities as "Japan, Inc." and "Korea, Inc.". COPE was envisioned to become the nucleus of the Joint Export Marketing Consortium.

BRETA is essentially an interest group association for Philippine trading companies (as opposed to manufacturers, who are members of PHILEXPORT and/or COPE). BRETA includes among its members the Philippine International Trading Corporation (PITC), the international trading arm of the government. BRETA reportedly has approximately 200 members.

Other than its supposed role as catalyst between the private sector and government, BRETA has little in the way of institutional presence of capabilities. BRETA has a very limited budget, now staff, and no offices. It relies entirely upon PITC for its logistical requirements. The membership of BRETA is considered "young and aggressive," and interested in pressing for market-oriented policy strategies. As such, BRETA should be included as a participant in PITO-P activities.

150

CONCLUSION

An initial analysis and evaluation of each of these organizations indicates that only PHILEXPORT is in a position to carry out the role of Project Coordinator. Its organizational, managerial and financial capabilities are strong in comparison to those of COPE and BRETA. Although COPE has proven potential, its current inactivity is based upon the pending merger with PHILEXPORT. It is only a matter of time and final negotiations before they are merged, possible before the end of 1990. BRETA has neither organization, management, nor independent financing sufficient to implement the Project.

151