Collection: Risque, Nancy J.: Files
Folder Title: Agriculture – Missions (Hong Kong and Philippines) Report (1)
Box: OA 16066

Kay--

Here's a draft transmittal and a bootlegged copy of the trade mission report. The official copy will come from Lyng (Delores) to the President through Nancy, with Lyng's cover letter.

As soon as the report is sent to the President, please contact Wanda Worsham, Legislative Affairs, USDA (447-7095). She will advise White House Legislative Affairs and coordinate delivering the report to the Congress.

382-0368
Wayne Sharp

Alan

AT

cc: Bonnie

7-18

Also- Enclosed Summary of drought report

A

THE WHITE HOUSE

WASHINGTON

July 18, 1988

MEMORANDUM FOR THE PRESIDENT

FROM: NANCY J. RISQUE

SUBJECT: The Enclosed Report of the U.S. Agricultural Trade and Development Mission to Hong Kong and the Philippines

Issue: The Agricultural Aid and Trade Missions Act of 1987 requires that the Administration send trade and development missions to selected countries. These missions are to report to you and to the Congress within 60 days of their return.

Dean Kleckner, President of the American Farm Bureau Federation, led the first such mission, to Hong Kong and the Philippines, May 15-21. Their report is enclosed. For your convenience, a copy of the report's executive summary is attached to this memorandum.

No Presidential action is required. Secretary Lyng will review the report to determine what actions by the Administration might be appropriate. Copies of the report will also be presented to appropriate members of Congress.

Background: The Agricultural Aid and Trade Missions Act (Sec 157, P.L. 100-202 as amended) requires the Secretaries of Agriculture and State and the Administrator of the Agency for International Development, under the leadership of the Secretary of Agriculture, to organize trade and development missions to 16 countries in CY 1988. Funds were appropriated sufficient to send three missions this fiscal year. Secretary Lyng is to select the countries and the participants, within certain limits. Individual missions include government officials but are dominated and lead by private sector individuals. Thus their recommendations are independent and are not Administration recommendations.

In a few days, you will receive the report of the second mission which went to Singapore and Indonesia. A third mission is scheduled for Mexico in September.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

July 14, 1988

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I have the pleasure of transmitting to you the report of the Agricultural Trade and Development Mission to Hong Kong and the Philippines. Organized under the Trade and Development Missions Program as mandated by the Agricultural Aid and Trade Missions Act (Section 157, Public Law 100-202 as amended) which you signed in December 1987, the Mission visited Hong Kong, May 16-17, and the Philippines, May 18-20, under the leadership of Dean R. Kleckner, President of the American Farm Bureau Federation.

The Mission had five key objectives: To establish a policy dialogue on market access and trade issues with host government and key private industry officials; to consider cooperative trade and development initiatives or opportunities as appropriate; to review the viability and implementation of U.S. Government programs in the host country; to ensure a means for effective follow-up to the Mission's activities; and to prepare a comprehensive report.

In keeping with the mandate of the law and the priorities of this Administration, members of the Mission reviewed trade policies and opportunities for U.S. private industry in Hong Kong, and discussed both trade policy issues and current development assistance programs with private sector representatives and Government officials in the Philippines. Their findings and recommendations are contained in this report. These were reached independently, and do not necessarily reflect the views or policies of the Department of Agriculture, the Department of State, or the Agency for International Development. I have instructed the U.S. Coordinator for the Missions Program to analyze carefully the results of this Mission and ensure effective follow-up to the recommendations.

I express my appreciation to the members of the Mission for their diligence and dedication to the objectives of the Agricultural Trade and Development Missions Program. The Program also has the full support of the Department of State and the Agency for International Development.

I believe the Missions Program can be a significant step in strengthening our economic and trade relationships with less developed countries and key trading partners in the developing world. I am committed to ensuring the success of this Program.

Respectfully,

Richard E. Lyng

RICHARD E. LYNG
Secretary

I. Executive Summary

The Agricultural Trade and Development Missions Program was authorized by the Congress in December 1987 to encourage greater U.S. private sector and foreign country participation in U.S. agricultural trade and development programs. The program was officially announced by the U.S. Department of Agriculture, and Wayne Sharp was appointed mission coordinator on January 14, 1988.

By offering specifically designed combinations of U.S. trade and food assistance activities to selected countries, the goal of the program is to develop countries and customers for U.S. agricultural exports. The Mission to Hong Kong and the Republic of the Philippines was one of the first of several such Missions planned for 16 countries.

In Hong Kong the Mission found a well established market for U.S. agricultural commodities. Hong Kong is the second largest importer of high-valued and value-added U.S. agricultural products such as poultry meats, tobacco and ginseng in Asia and the number one market for oranges. Efforts to increase the market for U.S. agricultural exports to Hong Kong were determined to be best directed toward the establishment of U.S. retail marketing outlets and continued support for programs of the USDA cooperators including TEA program activities. It was also determined that increased cooperation between the U.S. cooperators, USDA/FAS representatives and the agribusiness community would lead to enhanced program effectiveness. Such an increase in communication could be coordinated through the American Chamber of Commerce of Hong Kong.

In addition, the Mission found that Hong Kong is playing a major role as an entrepot for trade with the People's Republic of China. U.S. exports to China through Hong Kong increased from $7 million in 1978 to almost $800 million in 1987. Agribusiness representatives informed the Mission that the economic reforms taking place in the PRC were proceeding at a fast pace and that the next three years would be a critical period for establishing business connections. Representatives from various Chinese provinces are reportedly establishing offices in Hong Kong to promote and manage trade. The U.S. agribusiness community needs to be better informed and motivated, if market opportunities in China are to be realized. This is particularly true for medium and small size firms. Information should clarify the perception of long-run time horizons required for returns on investments and difficulties surrounding standardization of legal contracts and work rules.

Little opportunity exists for the direct involvement of U.S. aid or development programs in the PRC. One possible opportunity was identified in the need for development of a bulk grain unloading facility to service the growing livestock industry in South China.

The CCC GSM-103 program may be one alternative of providing assistance for such a project, which would enhance the market for U.S. livestock feeds. Additional possibilities include increased sales of breeding livestock and livestock feeding technology. A problem was identified with the collapse of a dairy cattle sale, which was to be made under the EEP program but before the deal could be completed the program funds were withdrawn.

In the Republic of the Philippines, the Mission found that the market for U.S. agricultural products and its expansion poses many substantial challenges. Following the revolution which deposed President Marcos, substantial change has taken place, some which impedes the ability of many U.S. products to enter the Philippine market, some which improves the outlook for an increased presence by U.S. private sector agribusiness ventures. Most notably among the direct impediments is a ban on imports of corn, which compete with heavily subsidized domestic corn production. The most positive development is the seemingly genuine desire on the part of the Aquino administration to stick to a market-oriented growth strategy centered on promotion of both foreign and domestic private sector investment. The resulting improvement in business climate is reflected in the growth projection of 6 percent for 1987 up from a low of -6.6 percent in 1983 and 1.1 percent during the first year of the Aquino administration.

The most pervasive factor, which stands in the way of increased markets for U.S. agricultural products in the Philippines, is a dramatic lack of infrastructure to support development. A need exists at every level. Rural roads and bridges, grain storage and handling facilities, post harvest technology, irrigation systems, and a viable selfsustaining rural credit delivery system, were among those most often discussed by the groups who met with the Mission. Additional areas are expected to surface when a final agreement is reached on the Comprehensive Aragrian Reform Program (CARP). The division of land holdings into small sections of 3 to 5 hecatres is anticipated to increase the need for training and assistance in forming efficient production units through PVOs, private cooperatives and/or intensive small farming systems.** The use of existing development programs and creation of innovative new ones will be required, if the necessary level of assistance is to be provided. The recommendations of the Mission attempt to provide operational alternatives which reflect a mixture of existing and new programs.

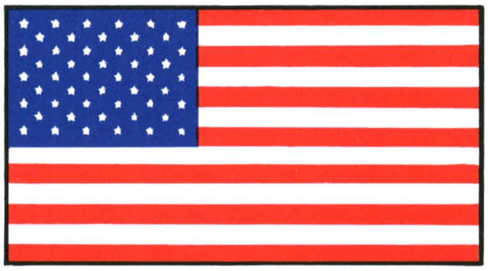
In meetings with the Secretary of Agriculture, Mr. Carlos Dominguez several points of concern to the Philippines were raised. It is important for the future of U.S./Philippine relations that these concerns be recognized and, where possible, attempts to achieve a mutually agreeable solution should be encouraged. The issues include the U.S. ban on imports of Philippine mangoes due to fear of insect infestation; legislative campaign by the U.S. Soybean Association to have the FDA label palm, palm kernel, and coconut oil as saturated fats; reduction in U.S. sugar import quotas and failure of the sugar reexport program; and the need for special and differential treatment for LDCs tropical products exports in the current GATT negotiations.

**Land reform legislation passed the Philippines' Congress in late June.

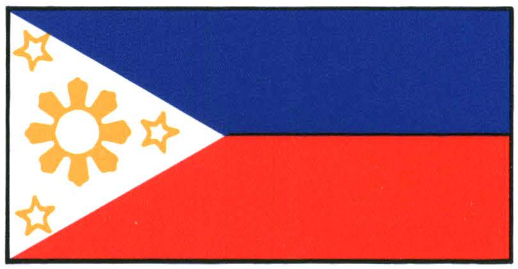
While the development of an exhaustive set of recommendations is not possible given the Mission time horizon, those provided represent concrete operational plans. If these ideas are to be beneficial, there must be an effective follow through by in-country personnel and coordination with the related Washington agencies involved. To evaluate progress, a follow-up visit by some or all of the mission participants should be considered in addition to the required quarterly reports.

Overall the mission objectives were accomplished. There was agreement among the members that the experience was useful and provided the groundwork for improved export markets for U.S. agricultural products. While the schedule was somewhat ambitious, the staff at the U.S. embassies overseas and those coordinating activities in Washington D.C. are to be commended for their work in preparing the program and logistics for the mission.

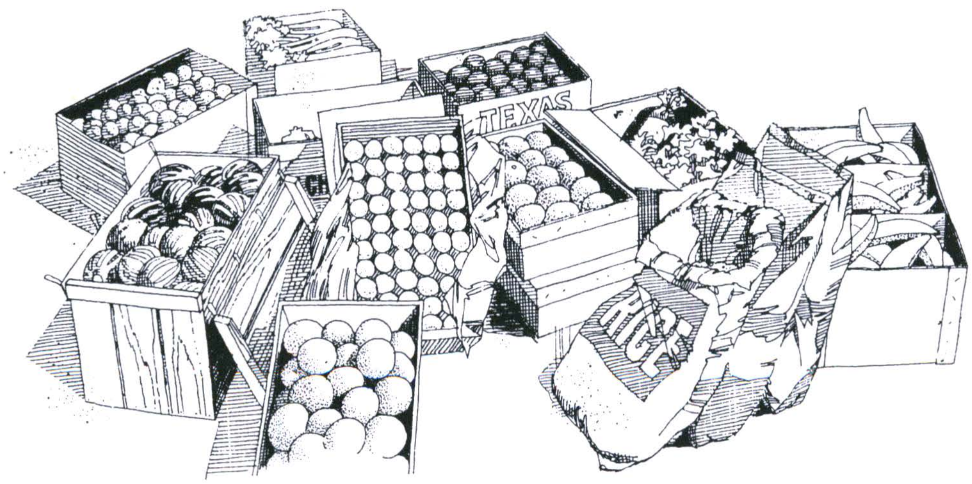
U.S. Agricultural Trade and Development Mission



Hong Kong
May 15-17, 1988



Republic of the Philippines
May 17-21, 1988



Hong Kong and the Republic of the Philippines

U.S. AGRICULTURAL TRADE
AND
DEVELOPMENT MISSION

HONG KONG
&
REPUBLIC OF THE PHILIPPINES

MISSION REPORT

JULY 12, 1988

LETTERS OF TRANSMITTAL

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

July 14, 1988

The President
The White House
Washington, D.C. 20500

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The Mission had five key objectives: To establish a policy dialogue on market access and trade issues with host government and key private industry officials; to consider cooperative trade and development initiatives or opportunities as appropriate; to review the viability and implementation of U.S. Government programs in the host country; to ensure a means for effective follow-up to the Mission's activities; and to prepare a comprehensive report.

In keeping with the mandate of the law and the priorities of this Administration, members of the Mission reviewed trade policies and opportunities for U.S. private industry in Hong Kong, and discussed both trade policy issues and current development assistance programs with private sector representatives and Government officials in the Philippines. Their findings and recommendations are contained in this report. These were reached independently, and do not necessarily reflect the views or policies of the Department of Agriculture, the Department of State, or the Agency for International Development. I have instructed the U.S. Coordinator for the Missions Program to analyze carefully the results of this Mission and ensure effective follow-up to the recommendations.

I express my appreciation to the members of the Mission for their diligence and dedication to the objectives of the Agricultural Trade and Development Missions Program. The Program also has the full support of the Department of State and the Agency for International Development.

I believe the Missions Program can be a significant step in strengthening our economic and trade relationships with less developed countries and key trading partners in the developing world. I am committed to ensuring the success of this Program.

Respectfully,

Richard E. Lyng

RICHARD E. LYNG
Secretary

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

July 14, 1988

Honorable Patrick J. Leahy
Chairman, Committee on Agriculture,
Nutrition and Forestry
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to transmit the report of the Agricultural Trade and Development Mission to Hong Kong and the Philippines. Organized under the Trade and Development Missions Program as mandated by the Agricultural Aid and Trade Missions Act (Section 157, Public Law 100-202 as amended) of 1987, the Mission visited Hong Kong, May 16-17, and the Philippines, May 18-20, under the leadership of Dean R. Kleckner, President of the American Farm Bureau Federation.

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Sincerely,

Richard E. Lyng

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Secretary

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

July 14, 1988

Honorable Claiborne Pell
Chairman, Committee on Foreign Relations
United States Senate
Washington, D.C. 20510

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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

July 14, 1988

Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives
Washington, D.C. 20515

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Secretary

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

July 14, 1988

Honorable Dante B. Fascell
Chairman, Committee on Foreign Affairs
House of Representatives
Washington, D.C. 20515

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Richard E. Lyng

RICHARD E. LYNG
Secretary

ACKNOWLEDGEMENTS

United States Department of Agriculture
Foreign Agricultural Service
Washington, D.C. 20250

July 14, 1988

While many individuals in the Department of Agriculture, the State Department, the Agency for International Development, and the U.S. private sector contributed significantly to the development and operation of this Mission to Hong Kong and the Philippines, we hereby acknowledge in particular the excellent contributions of the members of the Mission's Advance Team:

Alan T. Tracy, Special Assistant to the President for Agricultural Trade and Food Assistance;

Clarke Ellis, Director of the Office of Economic Policy, Bureau of East Asia and Pacific Affairs, Department of State;

John Tennant, Chief of the East Asia Division, Office of Project Development, Asia/Near East Bureau, Agency for International Development;

Douglas R. Freeman, Assistant U.S. Coordinator, Agricultural Trade and Development Missions Program, Foreign Agricultural Service, Department of Agriculture.

In addition, we commend the efforts of U.S. overseas officials in support of the Missions Program: in Hong Kong, Donald Anderson, the U.S. Consul General, and Philip Holloway, Agricultural Officer, who coordinated the Mission's visit; in Manila, Ambassador Nicholas Platt, Kenneth Queen, Deputy Chief of Mission, Frederick Schieck, AID Mission Director, and Robert McConnell, Agricultural Counselor (who arranged for the Mission's visit and will coordinate follow-up), in the U.S. Embassy.

Special recognition is due to Franklin Lee, Ruth Mihalec, and Christy Comer of USDA's Foreign Agricultural Service for their work on behalf of the Missions Program in addition to their regular duties.

Wayne W. Sharp

Wayne W. Sharp
U.S. Coordinator
Agricultural Trade and Development Missions

LIST OF PARTICIPANTS

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DEAN R. KLECKNER, MISSION LEADER
PRESIDENT AMERICAN FARM BUREAU FEDERATION

MELVIN E. SIMS, MISSION COORDINATOR
GENERAL SALES MANAGER AND
ASSOCIATED ADMINISTRATOR FOREIGN AGRICULTURAL SERVICE
VICE PRESIDENT COMMODITY CREDIT CORPORATION

MECHEL PAGGI, EXECUTIVE SECRETARY
ECONOMIST-INTERNATIONAL TRADE, AMERICAN FARM BUREAU FEDERATION

DONALD C. TEMME, REPRESENTING U.S. COOPERATIVES
Vice President, Area Manager - Asia
Central Bank for Cooperatives

ANDREW KOVAL, REPRESENTING PRIVATE VOLUNTARY ORGANIZATIONS
Executive Vice President
Council for International Development

WILLIAM PIEZ, REPRESENTING THE U.S. DEPARTMENT OF STATE
Deputy Assistant Secretary of State
Bureau of East Asian and Pacific Affairs, Department of State

MICHAEL CALLAHAN, REPRESENTING THE MARKET DEVELOPMENT COOPERATORS
Director International Operations - Asia
U.S. Feed Grains Council - Asia Regional

RONALD F. VENEZIA, REPRESENTING THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Director, Office of Project Development
Bureau for Asia and the Near East, Department of State

TABLE OF CONTENTS

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II. Recommendations

Hong Kong

The Mission makes the following recommendations based on our assessment of the information gained during our meetings in Hong Kong:

1. Two feasibility studies should be done under the supervision of the U.S. Agricultural Officer to determine the ability of U.S. food retailers to compete in the Hong Kong market. One study should examine direct food retailing through supermarkets. The second would look at food as a component in a general merchandise outlet.

2. The U.S. Agricultural Officer should initiate the formation of a committee on food and agricultural trade within the American Chamber of Commerce. Such a committee would serve as a forum to increase cooperation and coordination among U.S. cooperators, agribusiness representatives, and others involved in marketing U.S. agricultural products in and through Hong Kong.

3. Every effort should be made to promote the market potential of Hong Kong. This potential includes markets for U.S. processed and high-valued agricultural products and franchise restaurant operations. Hong Kong's role as an entrepot to the Peoples Republic of China must also be promoted.

4. The U.S.D.A. should initiate a study designed to develop a strategic plan for increasing the sale of U.S. agricultural products in China. Input from companies and U.S.D.A. cooperators doing business in China as well as other USG agencies should be included. The possibility of funding the development of a bulk grain handling facility to service the growing market for feed grains in southern China should be examined. Available funding sources to be explored include, but are not limited to, possible use of GSM-103, or TEA program funds.

Republic of the Philippines

The Mission makes the following recommendations based on our assessment of the information gained during our meetings in the Philippines.

1. The U.S. ability to expand agricultural trade with the Philippines is really heavily dependent on two elements: a) a healthy growth in the Philippine economy (i.e., 6 percent plus) and b) assistance and development of basic infrastructure such as port loading and inland storage facilities and transportation systems. If the U.S. wishes to improve the Philippines as a trading partner, it is also in our interest to assist the Philippines with these badly needed infrastructure projects.

2. GSM-102 and 103 programs for the Philippines should be pursued. These programs help to acquire and maintain U.S. market share. The Central Bank has proposed changes in the commercial bank revolving credit facilities for the Philippines and these changes could produce a change in the Ministry of Finance and Central Bank's attitude regarding GSM-102 and 103 programs (because of the availability of trade credit under the commercial bank revolving credit facility and penalties to be paid for non-usage thereof the MOF and the central Bank have refused the GSM-102 program for the past few years).

3. The USG policy apparatus which reviews and approves P. L. 480 resources for the Philippines should:

   a. approve **immediately** an amendment to the FY 88 P.L. 480 agreement to include a provision for use of section 108 resources generated by the program for private sector related activities. (Awaiting the FY 89 agreement will result in a delay of at least one year in implementing this report's recommendations.)

   b. Include the Philippine P.L. 480 program as a specific line item in the annual P.L. 480 markup (as opposed to lumping it into a "reserve") and thus allow negotiations with the GOP to commence at the early part of the FY in question.

4. Every effort should be made to promote the market potential of the dynamic prawn industry in the Philippines. The growth of this industry represents both short and long term opportunity for exporters of U.S. agricultural products.

5. We recommend AID continue to devote considerable resources to rural infrastructure aimed at reduction of costs associated with the movement of agricultural inputs and products. AID should also promote coordination among various public entities to ensure that increased infrastructure capacity is related to other ongoing and complementary developmental activities.

6. We recommend that the AID Mission incorporate non-tariff barriers to trade within its ongoing macroeconomic policy dialogue with the GOP, and place these issues on the agenda of the periodic high-level policy discussions held between AID and the GOP in relation to the annual assistance program. In cooperation with other donors, the AID Mission should seek to create a policy environment conducive to trade and investment, encourage more open, outward-oriented economic policies, facilitate the reduction of restrictive regulatory provisions as well as simplification of administrative and licensing requirements. These efforts can also include improved financial intermediation, protection of intellectual property rights and the reduction of government interference in the day-to-day decisionmaking of private enterprises in favor of more market-oriented determinations.

7. We recommend that, in conjunction with projected increases in U.S. assistance to the Philippines, the annual AID assistance program include some resources which are not exclusively government-to-government in their application and whose use involves the counsel of leading Philippine private sector organizations. This may require a strong presentation at the highest level of government to offset the current GOP bias now in effect for exclusive use of the AID assistance.

8. We recommend the AID Mission examine how it may strengthen its staff and organizational ability to design and work with an expanded private sector program.

9. We recommend that the AID Mission open a dialogue with leaders of private sector organizations, including cooperatives, to examine how AID assistance might best be applied to the policy and procedural constraints identified previously.

10. We recommend that the portion of the AID program which focuses on long-term development problems in agriculture, health and education should continue and expand. These resources should be focused on increasing the income levels and general welfare of poor Filipinos, with the knowledge that a "rising tide" of income and well-being is the most effective means to increase trade between our two countries.

11. We recommend USG support the proposal leading to the creation under the sponsorship of an American PVO of an Intermediate Financial Institution (IFI) serving agribusiness investment. The initial infusion of cash to create the IFI should be through the sale of mutually acceptable P.L. 480 commodities. The administration of the Fund will, as per U.S. regulations, be the responsibility of the sponsoring U.S. PVO working in cooperation with a Philippine banking institution.

The review and approval of loans, loan guarantees and specific projects would be entrusted to the concerned Philippine banker and American PVO who could also be joined by independent representatives from the Philippine and American agribusiness business community. The group would apply rigorous criteria during the review and approval process and, in addition, they would assure solid management oversight and regular reporting, follow-up and evaluations.

12. We recommend increased support to the PVO sponsored programs through the creation of a PVO-to-PVO people-to-people Fund. The initial infusion of cash into the Fund should be through the sale of mutually acceptable P.L. 480 commodities. The administration of the Fund will, as per U.S. regulations, be the responsibility of the sponsoring U.S. PVOs working in cooperation with Philippine PVO counterparts and bankers.

    The review and approval of loans, loan guarantees and specific projects would be entrusted to a joint group of business-oriented Philippine and American PVOs, who could also be joined by an independent representative from the Philippine banking and business community. The group would apply rigorous criteria during the review and approval process and, in addition, they would assure solid management oversight and regular reporting, follow-up and evaluations.

13. To achieve the wider objectives of the Agriculture Trade and Development Missions Act, we recommend the creation of the Philippine Trade and Development Fund. The initiative should be undertaken by a private sector group of American PVOs, cooperatives, agribusiness representatives and market cooperators committed to an action-related approach in support of the dual objectives of increased trade and development. They would be joined in this initiative by their Philippine partners and by representatives of the banking community. The Fund would be created through the monetization of P.L. 480 commodities. While details are provided in the Issues and Findings Section, the innovative aspect of the Fund would be its mandate and facility to assist, expand and compliment efforts of the four key private sector parties identified by the recent legislation, while also promoting increased Philippine productivity and their own market and export enhancement. The Fund could eventually, if future evaluation so justifies, evolve into the Philippine Trade and Development Foundation, a binational foundation which would assure an institutional commitment to the promotion of trade and development objectives on a more sustainable basis.

14. We recommend that an interagency working group be formed to monitor and coordinate export market development and aid projects in the Philippines. Particular attention should be paid to the successful implementation, where possible, of the specific recommendations of the Mission. The working group should include, but not be limited to, representatives from the PVO sector, FAS, AID, and State Department.

III. U.S. Agricultural Trade and Development Interests

Hong Kong

Hong Kong is the second largest U.S. export market for high-value products in the Pacific Rim. The Territory has a population of about six million people with more than four million tourists visiting every year. The territory is considered a show place for food for neighboring Southeast Asian countries and China. Hong Kong is not only an important market for U.S. agricultural foods and commodities, but also a staging base for development in the PRC. In 1997, the PRC regains sovereignty over the territory, under the condition that Hong Kong will be treated as a special administrative region for 50 years (i.e., one country, two systems).

The Hong Kong Government favors a general policy of free trade. All agricultural imports except tobacco and products, soft drinks, and alcoholic beverages can enter the territory duty-free. Other constraints placed upon imported primary produce relate to health standards, aimed at safeguarding the general public or local primary production. There is no form of direct subsidy to primary producers in Hong Kong.

The Territory must rely heavily on imported food products for its population and on other imported agricultural commodities for its industries, offering excellent opportunities for foreign agricultural products. The United States is the largest supplier of high-quality products. U.S. oranges, apples, grapes, tobacco and poultry products have gained a stronghold in Hong Kong, Australia, New Zealand and the European Community.

The competitive edge of U.S. products rests with our reputation as a reliable supplier and for providing consistently high quality products. The main disadvantages for U.S. products in the Hong Kong market are higher freight costs, particularly for bulky goods and, in the past, the strong U.S. dollar, which dropped since late 1985 vis-a-vis other foreign currencies. But more competitive prices and greater promotional efforts are vital for the U.S. to expand its share in other sectors.

Republic of the Philippines

The Philippines' economy posted its second consecutive positive overall real GNP growth rate in 1987, following sharp drops in 1984 and 1985. Real GNP was up about 5 percent in 1987 following a growth rate of less than 1 percent in 1986. The agricultural sector grew at only about 0.5 percent in 1987 due to losses incurred from drought and several major typhoons. In 1988, a 5-6 percent real GNP growth rate seems attainable, if investment resumes and the growing foreign debt burden can be partially alleviated.

Agriculture remains the dominant sector of the economy contributing almost 27 percent of the GNP and employing roughly 50 percent of the labor force. Over 35 million people, or 63 percent of the population, live in rural areas. The Philippines enjoys an agricultural trade surplus with an increase in exports and imports in 1987. Agricultural exports in 1987 of about $1.2 billion (3 percent over 1986) accounted for 21 percent of total exports. Coconut oil, bananas, pineapple products, sugar and coffee are the primary export earners. Agricultural imports in 1987 of about $645 million (up 16 percent from 1986) accounted for 10 percent of total imports. Leading agricultural imports include wheat, dairy products, soybean meal, cotton and tobacco.

In 1987, the Philippines ranked number 14 as a source of U.S. agricultural imports totalling $375 million (down 10 percent from 1986) and number 23 as a market for U.S. agricultural exports totalling $218 million (down 10 percent from 1986) leaving a U.S. farm trade deficit of $157 million (down 10 percent from 1986). The U.S. has a 34 percent share in the Philippine market for its agricultural products and takes 32 percent of the Philippine agricultural exports. Prospects for increased U.S. agricultural sales have brightened somewhat given increased economic activity and expanding consumer demand, an easing of foreign exchange constraints, import liberalization and the increasing competitiveness of U.S. products.

The primary interest of the U.S. agricultural sector in the Philippines is to maintain and expand the sales of its products. While most of the attention continues to be given to the bulk commodities, namely wheat, soybean meal, tobacco and cotton, increased effort will also be given to high value products now that the government has begun to liberalize the importation for many of these products.

To exploit the Philippine market and obtain greater sales of U.S. agricultural products, efforts by FAS Cooperators and various other groups and firms are needed along with increased use of the AIMS and possible selected use of EEP. Local trade contacts are expected to be more receptive should the economy continue to improve and U.S. prices stay competitive in the world market.

Other interests include the continued need to reduce and eliminate barriers that either prohibit or limit sales opportunities of most high value products, submit thorough and timely reports on the production and trade of key commodities and ensure that sugar is shipped to the U.S. in accordance with an agreed shipping pattern. Each of these can be accomplished through continued contacts and discussion with key GOP officials.

IV. Recipient Country Trade and Development Aspirations

Hong Kong

Under the Sino-British Joint Declaration, ratified in May 1985, British sovereignty over Hong Kong will be transferred to the People's Republic of China in 1997. As a special administrative region, Hong Kong will be allowed a high degree of autonomy, except in foreign affairs and defense. China has promised that the colony can maintain its capitalistic economy and open life-style for 50 years after 1997. The Hong Kong economy, now worth over $35 billion, grew at a rapid pace during 1975-84, slowed to less than 1 percent in 1985, and expanded by 9 percent in 1986.

Hong Kong has become a leading manufacturing and financial center through its free enterprise and free trade policies, an industrious workforce, a sophisticated financial infrastructure, a modern and efficient seaport, and an excellent worldwide communications network. Exports are extremely important to Hong Kong's economy. The manufacturing sector still accounts for the largest share of the economy, although it has declined in importance. Clothing is the dominant industry, and other important industries include electronics, watches and clocks, textiles, metal products, and toys. Agriculture's contribution to the economy is less than 1 percent.

Hong Kong is one of the most densely populated areas in the world, with a population of 5.5 million living on 404 square miles. Only 9 percent of the area is arable. Major crops are vegetables, flowers, fruits, and other field crops, valued at $56 million in 1986. Rice production has given way to intensive vegetable cultivation, which is more profitable. Hong Kong supports a small livestock industry, principally poultry and pig raising, and some dairy farming.

Hong Kong must import 90-95 percent of its food and agricultural raw materials. Agricultural imports amounted to $3.6 billion in 1985. The United States is the second largest supplier of agricultural products to the colony, after China. Major imports include live animals and meat products, cotton, rice, wheat, coarse grains, and citrus fruit. Major agricultural exports and reexports include fish products, fruit, vegetable preparations, and crude animal and vegetable materials.

The Hong Kong government generally favors a free trade policy. The government imposes specific duties on tobacco and cigarettes and alcoholic and nonalcoholic beverages. There are no tariff barriers or direct subsidies to producers. The major agricultural policy goal is to promote the social and economic advancement of primary producers through increased technical and economic efficiency, improved stability of production, and maintenance of orderly and efficient marketing.

Other policy goals include protecting consumers from high food prices by efficiently marketing local produce and maintaining a secure supply of fresh fish products. The agriculture and fisheries department promotes and regulates producer associations and oversees the orderly marketing of farm produce through such groups as the vegetable and fish marketing organizations.

Although very small, local farm production has contributed significantly toward meeting domestic demand for fresh foodstuffs and has a stabilizing effect on imported food prices. The Hong Kong government has emphasized a healthy food supply and a clean environment. Recent government initiatives in this area include banning the sale of poultry growth-stimulating hormones and the sale of fish, meat, and poultry containing synthetic hormones; stringent antipollution measures which affect livestock-producers; and a vigorous antismoking campaign.

Republic of the Philippines

The Philippines is a predominantly agrarian country that has achieved self-sufficiency in its major staples, rice and corn, while continuing to be a major supplier of coconut products, tropical fruits, minerals, and forestry products to the world market. Agriculture's potential as a source of income and export growth has long been neglected in favor of an industrialization strategy, but is now seen as playing a key role in the country's economic recovery. The Philippines is a net exporter of farm products (which are a declining but still important source of foreign exchange), while food imports account for less than 10 percent of the total import bill. The United States is a major agricultural supplier and market for the Philippines.

The Philippine economy, which ranks in the lower middle range of developing countries, is export-oriented. The country is well-endowed with natural and human resources. Following over 300 years of colonial rule under the Spanish, then nearly 50 years under the United States, the Philippines gained independence and established a democratic form of government in 1946. On February 25, 1986, a relatively peaceful revolution brought an end to nearly two decades of autocratic rule. Since then, the Philippines have been rebuilding its institutions along democratic lines by restoring the writ of habeas corpus, ratifying a new constitution, and scheduling congressional elections.

Between 1946-76, the economy grew at an impressive rate of 6 percent a year in real terms. Through the 1960s, import substitution motivated the rapid expansion of a highly protected industrial sector, while the agricultural sector was left to develop as it had during the colonial period. This strategy failed to absorb the rapidly growing labor force, leading the government to promote labor-intensive export industries. In addition, the benefits of the growth have been unequal, causing the highly skewed distribution of wealth to worsen.

A steady accumulation of foreign debt allowed the Philippines to continue financing large-scale infrastructure projects despite the oil price shocks of the 1970s and chronic current account deficits. The deficits were largely caused by the nation's trade and industrial policy, which failed to graduate the manufacturing sector to the export sector from the domestic market and discouraged agricultural production through export taxes, marketing and price controls. As the nation's financial indicators deteriorated in 1981-82, the credit mix became increasingly skewed toward short-term commercial bank loans. Lack of confidence in both the political and financial systems led to capital flight and drying up of foreign loans. In facing its worst crisis since World War II, the Philippine economy has been marked by high unemployment, rescheduling negotiations for its $27 billion debt, weak export earnings, uncompetitive import-substitution industries, and widespread poverty.

The current development strategy aim to utilize the country's comparative advantage arising from its agricultural and labor resources. The Philippines aims to comply with a growth-oriented strategy, designed in conjunction with the International Monetary Fund. Despite widespread domestic and international support for President Aquino's administration, the political situation remains tenuous, particularly because of the upcoming congressional elections, a strong communist guerilla force, militant unions, and a restrictive military.

Philippines agriculture provides 25-30 percent of national income, about a third of merchandise exports, and over half of total employment. During the last 30 years, population pressure and traditional inheritance customs have led to a steadily decreasing average farm size, reckless deforestation, and high tenancy rates. In the Philippines, about two-thirds of all farmland is devoted to food crops, with the remaining third to commercial crops. Rice, corn, and coconut are the leading crops, but sugar, bananas, pineapples, root crops, abaca, coffee, and tobacco are also grown. With the exception of poultry, backyard operations characterize the Philippines livestock sector. Per capita meat consumption remains low and output is small, because of high production costs and relatively low purchasing power for most consumers. As a result, fish supply much of the protein in the diet.

The agricultural sector has long been neglected and discriminated against as the government embarked on its industrialization strategy. During the 1950s, the sector grew primarily because of increases in area. The 5 percent annual growth of the 1970s largely reflects the Masagana 99 rice self-sufficiency which was achieved in 1977. There was a slowdown in farm sector growth as marked by low productivity, declining investment, and poor access to bank credit.

The aim of the government is to lay the foundation for an equitable, efficient, and ecologically sustainable growth in the agricultural and rural sector. Unable to greatly expand area harvested, current Philippines agricultural policy stresses increasing productivity by: (1) removing macroeconomic biases against agriculture, (2) encouraging diversification of exportable crops, (3) improving rural incomes, (4) strengthening conservation policies, (5) expanding land reform, and (6) providing better institutional and infrastructural coordination. Food security in rice and corn will continue to be important. However, in keeping with the government's longer term goal to decentralize development activities, the actual crop mix will be left to regional and private initiative.

Recognizing its comparative advantage in agricultural production, the Philippines seeks to expand markets for its export commodities. Emphasis is placed on food processing industries, such as meat, poultry, vegetable, and fruit products. The Philippines continues to have high import tariffs and import restrictions for many agricultural commodities, except by tourist or export-oriented businesses.

Compared with the 1950s and 1960s, when the private sector was the primary engine of growth, the government began to expand its role in development by the early 1970s. Recognizing that area expansion could no longer be counted on to fuel agricultural growth, government programs designed to modernize farming have centered on expansion and improvement of irrigation facilities, agricultural research, land reform, and the Rice Self-sufficiency Credit Program (Masagana 99). The government has subsidized consumer prices, while attempting to support rice producer prices by procuring 10 percent of the rice harvest. During the 1970s, the government gradually became the sole trader of key Philippine commodities and agricultural inputs, as the private sector continued the local trade of farm goods.

To improve efficiency and production incentives, the government has (1) removed trade monopolies, export taxes, and price controls, (2) liberalized imports of inputs, (3) increased government expenditure on infrastructure, particularly farm-to-market linkages, and (4) consolidated the institutions involved in agricultural planning, credit, and policy.

In recent years, food supply has appeared adequate to meet the country's needs. Yet, income-related malnutrition has recently been increasing. The government's long-standing priority of self-sufficiency in food staples (except wheat) was largely reached in 1977 with the attainment of rice sufficiency. However, this success came at significant cost to the rural financial system, which is still in arrears from nonrepayment of loans. After 1977, the urban consumers received the major benefits of higher rice productivity as the real price of rice declined. By the early 1980s, production of major crops (particularly rice, sugar, and coconut) had stagnated. Due to the rapid population growth, expansion of farmland is increasingly limited, while Philippine yields of many crops are among the lowest in Asia.

Because of past distortions of price and access to credit, all crops have not been assisted equally and some farm activities are more efficient than others. In addition, political considerations have often outweighed economic rational for infrastructure improvement, resulting in high transportation and distribution costs.

Until recently, agricultural trade policy taxed agricultural exports, yet did not protect agriculture during periods of depressed prices. The rice, coconut, and sugar sectors were the most severely affected. High ad valorem tariff rates continue for many key agricultural imports, while bans on fresh fruits, nuts, meat preparations, and blended Virginia leaf cigarettes are scheduled to be lifted by May 1988. The import policy has resulted in smuggling and high costs to consumers for these items.

V. Issues and Findings Regarding the Philippines

Unlike Hong Kong, the complexity of issues surrounding opportunities for increased U.S. agricultural trade with the Republic of the Philippines requires additional discussion. In this section, a more detailed outline of major issues addressed in the Mission recommendations for the Philippines is provided.

Constraints To Trade and Development Opportunities

Several bottlenecks were identified that prevent a more effective and prompt resolution of trade and development opportunities.

GSM 102 and GSM 103 Opportunities

First, the requirement of sovereign guarantees for GSM 102 and 103 sales programs prevented us, the Agriculture Trade and Development Mission (ATDM), from concluding a sale of U.S. soybean meal to the Philippine Livestock and Poultry Development Foundation. This group (or association) of small livestock producers has secured through private banking sources hard currency to purchase 20,000 mt of soybean meal (worth U.S.$5 million) two to three times per year. This group submitted a formal request to the ATDM and arranged a meeting with the Mission in order to finalize the sale. The Government of the Philippines, however, is reluctant to provide sovereign guarantees to what they perceive is a sale to a private sector entity.

Title I, Section 108 Opportunities

Similarly, sovereign guarantees and the requirement to repay the full amount of any loan in dollars after 10 years also inhibits the Section 108 program from being used effectively. Most governments, as is the case with Philippines, would like all or most of Title I currencies applied to their general budget requirements rather than to private sector initiatives.

This inhibition is even more severe when private sector Section 108 programs are initiated by cooperatives and PVOs. The dilemma is as follows: A PVO or Cooperative to conclude a Section 108 program must secure the approval of the host government. The host government would be reluctant to agree to:

a. The allocation of a part of Title I resources to the promotion of the private sector.

b. An American PVO or Cooperative, rather than the host government or other local entity, having both the autonomy necessary as well as the responsibility for the administration, control and supervision of the sale proceeds and the actual program implementation, and

c. The final burden for the Section 108 repayment in dollars, 10 years later and as required by U.S. legislation, is the responsibility of the host government.

As the goal of the Agriculture Aid and Trade Mission Act is to promote private sector sales, we suggest that the legislation and the corresponding regulations be modified to permit private sector sales for both Title I, Section 108 programs as well as GSM 102 and 103 programs.

Section 108 local currencies present opportunities well beyond the initial notion to use these funds for credit programs in support of medium, small and micro-enterprises. Under current guidelines, the local currencies are to be reconverted to dollars and returned to the U.S. Treasury. This reconversion occurs within 10 years of the initial repayment of the loans in local currency. Instead of reconverting local currency to dollars, the legislation might be amended to allow AID, the recipient developing country as well as PVOs and Cooperatives to consider ways in which the local currencies could be used to promote Section 108 goals on a more sustainable basis. One alternative would be to create a Fund to support aid and trade initiatives from the proceeds of sales of the U.S. commodities. This Fund could eventually evolve into a binational foundation which would fund a wide range of activities directed at continued promotion of the local private sector but also a range of contacts between private sectors of the United States and the recipient developing country private sectors; between their business schools and other specialized retraining institutions or programs; and between various entities in both countries that operate in or affect the marketplace.

PHILIPPINE COOPERATIVE MOVEMENT

The cooperative movement in the Philippines has had a checkered history. Most of the ills are traceable to periods when government tried to interfere and to infuse too much soft money, as for example, the government sponsored Samahang Nayons. With the perception of government, supplied soft money, power brokering and corruption, cooperative discipline broke down, while defaults and delinquencies increased. Since Mrs. Aquino has come to power there have been no massive government cash infusions, rather the attitude of the government has been to get the government out of this sector, to reduce government interference and create a better environment for the private sector and market forces.

There are many cooperatives that survived these periods and which are today healthy and expanding. Those that appear most solid are privately initiated cooperatives. More than 50 percent of their assets are equity contributions of members. By virtue of the volume of the resources they mobilize and the services they render these cooperatives are important development participants in their respective communities. The rehabilitation of the rural banking system has not progressed rapidly. Commercial banks are not providing credit to the vast majority of the rural population. The need to provide credit to the rural majority is critically important. Everyone interviewed by the ATDM concurred that cooperatives have an important role to play and that creative ways should be explored to expand support to this sector.

The Secretary of the National Economic Development Authority, Mrs. Monsod, informed us that government supported cooperatives had miserable performance histories with repayment records in the low 18 to 36 percent range. On the other hand, she reported satisfactory performance of PVO supported cooperatives as well as cooperatives wherein members contributed substantial equity. These cooperatives, according to Secretary Monsod, have repayment records of 98 percent.

Subsequent interviews with respected members of the banking, business and development community as well as with the leadership of the National Confederation of Cooperatives (NATCCO) confirmed the health of many cooperative and the vital role they can play in the development of the Philippines. NATCCO has published case studies of successful cooperatives.

The USAID Mission Director, agreeing on the importance of providing credit to the rural majority, suggested that a hard-nosed banker and business assessment be carried out to identify cooperative banks and cooperative banking mechanisms that have been successful over the long term in the Philippines and to put in place a rigorous system that would assure that any additional assistance to the cooperative banking group meets the criteria of sound banking and management practices. The USAID Director offered to finance such an assessment.

Rural Credit Delivery Problems in the Philippines

A. Current Rural credit Delivery System in the Philippines:

Discussions with several informed and concerned groups in the Philippines reflected a clear need for an improved credit delivery system to rural farmers and rural enterprises. In a meeting with several selected and indigenous Philippine commercial banks (owned by the private sectors) these banks professed only a partial penetration of the rural agricultural market requiring credit. Many of the smaller farmers' borrowing needs are not being provided by Philippine commercial banks for the following reasons:

1. Many of the farmers are simply too rural and difficult to reach even with a nationwide branch network.

2. Many farmers have a very small operation and the size of the loans needed are too small for commercial banks to be attracted to this business or to economically service it. Minimum loans desired by commercial banks were generally 100,000 pesos ($5,000) and even this size loan was not considered really desirable. many rural farmers require loans of 10,000 to 20,000 pesos.

3. Banks do not now and do not expect in the future to have adequate staff or structure to profitably service small agricultural borrowers.

While creditworthiness is also an issue for some small farmers, the banks generally believe many of the farmers in the rural areas could properly manage credit provided the lender practiced good credit disciplines in awarding and monitoring such loans. As reinforcement to this notion the banks acknowledged that "informal" lending practices did exist in rural areas in which individuals made small loans to farmers at interest rates as high as 20 percent per month (240 percent per annum). This practice presents some evidence that there are rural farmers able to borrow and repay even at outrageous interest rates and also reflects the rural need for some form of credit in the absence of the availability of commercial bank loans.

B. Proposal for an APEX Cooperative Financial Intermediary in the Philippines:

Against this background of rural credit delivery problems, the notion of a cooperative owned bank to reach such rural borrowers was introduced and discussed with the Philippine Commercial Bankers and some interested officials of the Philippine Government. The history, structure and activities of the cooperatively owned U.S. Farm Credit System were reviewed for relevancy and some members of the ATDM (Don Temme, Mel Simms, Dean Kleckner) pointed out some distinct advantages of a cooperatively owned lender:

1. Borrowers have a particular identification with the cooperative bank because of community ownership interest and thereby have increased motivation to responsibly manage and repay debt.

2. The cooperative banks have a stronger knowledge and empathy with the borrowers' needs and a commensurate ability to guide and provide technical help to the borrowers, including disciplines in the borrowers' capacity to receive and repay credit.

3. A cooperative bank is recognized to have a strong continuing commitment to its community and borrowers.

Some members of the ATDM (Don Temme) stressed that notwithstanding the borrower-owner characteristic of cooperative lenders any cooperative bank must employ the same financial and operating disciplines (i.e., maintaining creditworthy borrowers and charging market-level interest rates) in the administration of its lending practices that are employed by commercial lenders. Lacking such disciplines any lender cannot remain financially viable and will fail.

At this point in the discussions with representatives of the Philippine banks and the Philippine Government, Bruce Tolentino of the Agricultural Credit Policy Council made the following comments:

1. A proposal for an APEX Cooperative Bank have been made by some U.S. Agricultural groups. The proposal was in effect an argument on behalf of an agricultural cooperative bank but was not really a comprehensive feasibility study and left some questions unanswered.

2. The Philippine Government would not support any such cooperative bank with public funds unless private sector funds were already in place for member cooperatives and then only on a one-to-one basis.

3. He was pleased to hear the comments regarding the credit and operating disciplines that should be required of any proposed cooperative. Provincial cooperative banks funded by Philippine public funds had failed because of a loss of such disciplines.

The commercial banks, while not familiar with the APEX Bank proposal, commented that they concurred entirely with the expressed need for a cooperative bank and would consider the possibility of investing in a small percentage of the required capital and providing some of the funding for that bank.

Further comments regarding a cooperatively-owned bank in the Philippines were also heard at a luncheon meeting with the R/P U.S. Business Council Meeting. The Council is a voluntary group of prominent Philippine business executives and has a counterpart organization in the U.S. comprised of U.S. business executives. During the discussions regarding the Comprehensive Agraian Land Reform Program (CARP) the council members pointed out that land reform would create an even greater need for cooperatives in the Philippines. Council members reaffirmed comments heard earlier about the need for a cooperative financial intermediary to deliver credit to rural cooperatives. However, because of the history of failures of provincial cooperative banks in the Philippines, council members were skeptical of the future prospects for a newly organized cooperative. The high failure rate was attributed to government funding of cooperative capital requirements with little or no private sector funding. Such cooperatives are said to have poor business acumen and no operating/financial disciplines. There was a very positive response to suggestions by ATDM members that newly organized cooperatives be primarily funded by private (members') capital and managed by professionals held responsible for operating results. However a few members of the council commented that several studies have been made which did not fully address the need for primary private capital and the need for experienced capable managers. A further comment was made that such professionals are in ample supply in the Philippines.

C. Problems With the APEX Cooperative Bank Proposal:

During the period of June 1, 1987 through August 21, 1987, a feasibility study was conducted for the establishment of an APEX Cooperative Financial Intermediary (CFI) in the Philippines. The 12-week study was performed by a team of 8 individuals from the U.S. and 14 individuals from the Philippines. The ATDM understands that Philippine cooperatives invited U.S. cooperative organizations to participate in such a study. Subsequently, a proposal to establish an APEX CFI has been presented with the request for funds to undertake a one-year institutional development phase. The feasibility study suggested a onetime grant of U.S. $6.6 million to cover start-up costs over five years. The proposal requests U.S. $952,104 and U.S. $452,960 in local Philippine pesos.

The ATDM did not have the resources to undertake any review of the study of the proposal nor did that seem appropriate, since it and the feasibility study had been reviewed by several Philippine and U.S. interested parties. In summary, the following significant problems were made known to the ATDM:

1. Comments from various Philippine Government officials including Bruce Tolentino mentioned earlier, and Ms. Solita Monsod, Secretary and Director General of the National Economic and Development Authority (NEDA) as well as others, expressed strong interest in the cooperative bank concept but have insisted that private sector funds be committed "up front" before any significant government funding of capital needs would be available for such a bank. The APEX CFI relies heavily on public sector funds for the initial start-up without significant matching private sector funds. Compounding this problem is an apparent lack of any assessment as to availability of private sector funds for the bank equal to the amounts described for start-up costs.

2. The APEX CFI proposal in relying heavily on public funding specifically looks to the monetization of funds under P.L. 480 Title I programs. Currently the outlook for this particular source of funds is not at all clear. Further the Philippine Government looks at any AID funds for general budgeting and developmental purposes and given the objections described in (1) above may not concur in the use of P.L. 480 Title I funds for the APEX proposal.

3. There is a high degree of skepticism (on the part of both public sector government officials as well as private sector businessmen) about the financial viability of any newly proposed cooperative bank. There is a clear need for highly disciplined operating and credit delivery procedures, particularly given the present fragility of existing local cooperatives. (Philippine business executives believe such disciplines and the involvement of privately funded capital are closely interrelated.) Many have stated the current APEX study and proposal does not adequately address this requirement. Some of this criticism appears to be based on the study's lack of involvement of existing commercial and local banks in the Philippine banking community. Such involvement would include realistic assessments by Philippine banks concerning the proposed procedures of the cooperative bank as well as potential involvement of these banks in providing some of the operating capital. The Philippine banks could also work with the cooperative bank in lending and funding activities.

D. Recommended Courses of Action:

Everyone in both the private and public sector with whom the APEX CFI proposal was discussed expressed interest in approval of the concept of a cooperative styled lender in the Philippines to address local agricultural and rural credit needs. However, the criticism and problems mentioned above suggest some revisions and/or new approaches for the current proposed APEX CFI.

1. The question of funding must be approached given the Philippine Government's reluctance to commit public funds. Existing viable Philippine cooperatives should be surveyed to determine the levels of private capital available from that source for an APEX Cooperative Bank. Some assessment of private capital availability for initial funding of such a bank is necessary. Involvement of experienced Philippine lenders such as private sector Philippine banks might also be appropriate as another source of private capital.

2. Many commented about the need for more realism and a more "hard nosed" approach to lending and operating procedures including recognition of current weaknesses in existing cooperatives and the potential of the loan losses in financial projections. Once again, experienced Philippine lenders could be drawn on for input into the study concerning lending and operating procedures as well as realistic forecast for loan volumes and loan losses.

3. The resources of cooperative banks including the Central Bank for Cooperatives in the U.S. Farm credit System can be available for any additional work on this project. This suggestion is based on some of the comments expressed to the ATDM about the need for realistic assessments of the financial forecast and loan loss projections. Specifically the U.S. AID Mission Director expressed interest in financing a "hard nosed" assessment of current cooperative banking practice in the Philippines for the purpose of installing strong credit and financial disciplines into the APEX proposal.

E. General Comments/Conclusion and Summary:

The genuine need for and bonafide interest in a cooperative owned bank for rural credit delivery is highly apparent and very real among some private and public sector individuals. Problems concerning initial and ongoing capitalization of a cooperative bank and operating/financial disciplines must be addressed, but certainly can be resolved. Obviously some actions need to be taken before going forward with the existing APEX CFI proposal.

Intermediate Financial Institution

During the meeting between the ATDM members and senior Philippine bank representatives a proposed initiative appeared to meet the dual objectives of increased trade and development. Both the Philippine and American sides clearly recognized the mutual benefits of the proposal foreseeing the creation of an Intermediate Financial Institution (IFI) from funds generated through the sale of P.L. 480 commodities. Furthermore, the concept of the proposed IFI is modeled on a successful loan guarantee facility initiated three years ago by AID/Manila in cooperation with the Far East Bank and Trust Company and sponsored through the funding facilities made available by AID's Bureau for Private Enterprise (PRE). (In 1983 Congress authorized the creation of the Private Sector Revolving Fund within the Bureau. The purpose of the Fund was to provide a flexible and selfsustaining mechanism for channelling assistance to commercially viable projects with strong development payoffs. The majority of PRE projects work through Intermediate Financial Institutions (IFIs) to encourage these institutions or their commercial bank partners to lend to smaller businesses that previously did not have access to commercial lending facilities.)

The concept is similar to the PRE model but with the following differences. In lieu of a cash infusion from PRE's dollar funding facilities the funding for the start-up costs and capitalization of the proposed IFI would come from the sale of targeted U.S. agriculture commodities. The commodities would be carefully selected with the goal of promoting future purchases or of meeting a specific development need. Alternatively, the commodities would be carefully targeted to promote and encourage small livestock producers or agribusinesses such as feedmills. Funds made available from the sale would be deposited in the IFI and would be matched by the IFI's private commercial banking partner on a one-to-one basis. These funds would be loaned at commercial or market rates of interests for a fixed period to specific target groups and for specific development objectives not adequately served by existing financial mechanisms. Emphasis will be placed on providing loans or guarantees for loans not only to progressive farmers and rural-based entrepreneurs but also to agribusinesses promoting value-added exports and agribusinesses with outreach to large numbers of contract farmers.

Presently, the PRE supported program has provisions permitting use of the dollar facilities to purchase American goods and services desired by the investors. Here the principle of complimentarity is clear. If the PRE supported program and the proposed soft currency generated IFI are closely coordinated, greater amounts of PRE dollars can be devoted to purchases of American goods and services. One of the first steps to achieve this objective is to determine if the same banks cooperating with the PRE program would also be interested partners in the IFI initiative. During the visit of the ATDM three banks cooperating with the PRE program indicated interest in expanding services further into the rural sector, if the IFI initiative comes to fruition.

Funds required to initiate this Intermediate Financial Institution would be generated through sales of U.S. commodities made available and authorized under Title II or Section 416 monetization programs. AID officials have been trying for some time to secure agreement from the Philippine government to initiate a Title I, Section 108 program. The Philippine government had taken a firm position, because of the serious balance of payment and debt situation, that all Title I resources be used for budget support.

When the ATDM met with Secretary Monsod and senior officials of the National Economic Development Authority (NEDA) the GOP side remained firm and were not open to a Section 108 program funded from current Title I sources, but they were supportive of the suggestion to create a fund from proceeds of a monetization program sponsored by an American PVO, especially if the funds were used in support of PVO and cooperative programs and in support of private sector endeavors directed to the rural areas. Details of the breakthrough in the negotiations with NEDA are provided on page 35 in the section devoted to the expanded role of PVOs.

Philippine Trade and Development Fund

The Agriculture Trade and Aid Missions Program authorized by Congress in December 1987 encourages greater U.S. private sector and foreign country participation in U.S. agricultural trade and aid programs. The consensus developed at the Workshops held in Washington prior to the team's visit to the Philippines suggests the best approach for increasing U.S. agriculture exports be an integrated one, using all existing tools for both food aid and trade. As interpreted in the InterAgency USDA, State and USAID March 88 report the central thrust of the Agriculture Trade and Development Missions (ATDM) program "is to develop unique combinations of public and private sector programs and activities, so as to expand U.S. agricultural exports, both in the near term, and by promoting economic development, in the long term as well." The InterAgency Group expressed particular interest in private sector initiatives that involve more than one group and looked forward to proposals that will permit participation by U.S.:

- o market development cooperators
- o cooperatives
- o private voluntary organization
- o agribusinesses.

To achieve the objective we recommend the creation of the Philippine Trade and development Fund. The initiative would be undertaken by a private sector group of American PVOs, cooperatives and market cooperators committed to an action-related approach in support of the dual objectives of increased trade and development. The Fund would be created through the monetization of P.L. 480 commodities.

The innovative aspect of the Fund would be its mandate and facility to assist, expand and compliment efforts of the four key private sector parties identified by the recent legislation, while also promoting increased Philippine productivity and their own market and export enhancement.