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PROGRAM PROFILE

Title	:	Natural Resources Management Program (NRMP)
Grant Number	:	492-0444
Project Type	:	Forestry
Project Cost	:	Grant - US\$ 125 M GOP Counterpart - US\$ 33.4 M
Program Duration	:	5 years (September 1990 – September 1995)
Implementing Agency	:	Department of Environment and Natural Resources
Funding Agency	:	United States Agency for International Development (USAID)
Brief Program Description	:	The Natural Resources Management Program (NRMP) is mandated to support ecologically sound long-term economic growth in the Philippines. The USAID grant of US\$ 125 million is intended to support: 1) policy reform; 2) resource protection efforts; 3) related support services; and 4) monitoring, evaluation and audit. The Program is designed to provide US\$75 million in performance-based disbursements in four (4) tranches for the implementation of specified policy changes; a US\$ 25 million non-government organization (NGO) debt-for-nature swap; US\$ 20 million to finance support services such as technical assistance, training, and research to aid policy implementation; and US\$ 5 million for monitoring, evaluation and audit.
Target Beneficiaries	:	Upland farmers, Indigenous Cultural Communities (ICCs), and DENR
Project Areas	:	Regions 2, 4, 10 and 11

EXECUTIVE SUMMARY

The Natural Resources Management Program (NRMP) - I is a five-year policy reform-driven program supported by a US\$ 125 million grant from the United States Agency for International Development (USAID). The Program is designed to enhance the management of natural forests and to improve the efficiency of the forest products industry through the implementation of the following policy actions:

- 1) Increase tenure security to encourage private investment in sustainable forestry management;
- 2) GOP collects substantially larger percentage of economic rents of timber harvested on forest concessions;
- 3) Revoke or amend regulations that restrict the efficiency or competitiveness of the forest industry;
- 4) Encourage private investment and competition in sector by divesting/liquidating parastatals and/or GOP equity/assets in forest enterprises;
- 5) Preserve remaining old growth forests and the biodiversity contained therein;
- 6) Rationalize DENR management of residual forests and provide adequate financial resources to carry out its mandate;
- 7) Facilitate technology development and transfer in forestry management and preservation plus wood processing; and
- 8) Increase local community and NGO participation in forestry management.

Among the notable accomplishment of the Program was the approval of the legislation, administrative orders, and other rules and regulations in support to the implementation of the abovementioned policy actions. These include among others:

- DAO No. 2, Series of 1993 which prescribes the rules and regulations to identify, delineate, and recognize ancestral land and domain claims.
- DAO No. 60, Series of 1993 outlining the policy on the Industrial Forest Management Agreement (IFMA) which replaced the Timber License Agreement (TLA). Its passage was expected to encourage the private sector – including TLA holders – to participate in the management and protection of both forest plantation and the existing residual forest within the area.
- DAO No. 24, Series of 1991 which legally ban logging in all Old Growth Forest (OGF) areas.

- DAO No. 22, Series of 1993 which set the major policies and guidelines for implementing Community Forestry Project (CFP) and outlines in clear terms the phases of implementing CFP projects.
- Administrative orders on deregulation of transport and species-specific ban (narra), and Memorandum Circular on the export of logs and lumber from plantation.

In order to pave the way for the accomplishment of the objective of policy action on forest charges, GOP passed RA 7161 and its accompanying implementing guidelines which provides the basis for assessing forest charges for naturally-growing timber and non-timber forest products that are gathered from public forestlands, alienable and disposable lands, and private lands.

The issuance and implementation of these policies is expected to: 1) develop a system for a sustainable management of about 3.4 million hectares of second growth forests; 2) attract more private investment in and international competitiveness of wood processing industries; 3) result in the privatization of inefficient wood and wood processing parastatals; and 4) develop a market-determined pricing of natural resources taking into consideration replacement cost, land rents and other concepts.

I. PROJECT DESCRIPTION

1. Rationale

The government, in its efforts to resuscitate the economy of the Philippines, has instituted a number of structural economic reforms/adjustments. It has likewise labored to create an environment for economic recovery and sustainable growth. Although the hopes for economic recovery and sustained growth are largely hinged on the accelerated growth of the industrial sector, the economy is still highly dependent on the input and earnings from natural resources-based sectors. In addition, about two-thirds of the country's population is dependent on these natural resources (agriculture, forestry and fisheries). A study by the World Bank (World Bank 1989) even shows that fisheries and forestry sector have been more efficient earners and savers of foreign exchange than the industrial sector. The economic costs resulting from mismanagement of these resources are incalculable more especially at the local level.

Realizing this, the government through the DENR, initiated the Philippine Strategy for Sustainable Development (PSSD) that identified the development framework for the natural resources sectors. This strategy calls for NRMP to assist the government of the Philippines develop policies for the protection and enhance use of these renewable resources, particularly the framework's top priority - forestry. This strategy likewise shows that environmental protection and economic growth are mutually compatible.

It is estimated that the Philippine's forested area has contracted from about 57 percent of the country's total land area to about just 21 percent in 1988. Notwithstanding the efforts of the government, the state of the country's forests continues to be depleted at an alarming level. Log export has been declared illegal; the DENR has been intensifying its effort to curb illegal logging with little success; many big reforestation projects have been launched, but the deterioration continues. It was concluded that to make headway, the government should pull by the roots the conditions that led to the mismanagement of the forests and its decline. Changes in policies as well as in the structure and efficiency of the forest products industry are required not only to arrest the decline but also to enhance productivity and consequently employment opportunity and revenues for the government.

Difficulties in the management of the environment and natural resources can trace its root to widespread poverty along with rapid population growth and inequitable access to natural resources. People have to make a living and when the existing resource - which keeps on getting smaller while the population keeps on increasing - cannot anymore provide that, they go to uplands and clear the forest, and convert it into farms for livelihood. Ultimately, with the influx of more people, the stress becomes unbearable for

the forest and leads to widespread destruction with harmful consequences in the downstream areas. The destructive consequences both in the uplands and in the lowlands lead to more poverty. It is a vicious cycle that has to be stopped. This unregulated access to public lands that leads to destructive practices (since the users have no incentives to sustainably manage the resources) is the result of weak and ineffective government control. Earlier government policies even encouraged this unregulated access as a means to providing escape from poverty. The Magsaysay administration in 1954 propagated the homestead program – ‘land for landless’ as the strategy to cease peasant rebellion of People’s Liberation Army which encouraged farmers to migrate and clear primary forests.

The conditions that the Program will try to correct are as follows:

- a. Natural resources markets that do not measure or capture the true cost to society;
- b. Policies that distort resource allocation;
- c. Inadequate institutional capacity;
- d. Inadequate information for decision-making; and
- e. Lack of participation by resource users.

To ensure that the conditions that contributed to forest mismanagement will be addressed, the Program proposes the following policy changes:

- a. Empower and motivate communities and local governments to take responsibility for the protection and sustained management of much of the country’s forest estate;
- b. Sell commercial timber exploitation rights at prices that represent the true economic rent, and to invest the increased proceeds in sustainable development of the forest resources;
- c. Remove barriers constraining imports and exports of raw materials, products, and technologies that the forest products industries need to improve economic efficiency, and to adapt to the changing supply of raw materials; and
- d. Remove barriers that may constrain firms from entering or exiting the forest products industries, thus inhibiting adaptation to the changing forestry situation.

On the other hand, the USAID-Philippines Assistance Strategy Statement (PASS) indicated that its goal in the Philippines is the promotion of broad-based sustainable economic growth through strong partnership/collaboration with the private and public sectors. The goal, however, is dependent on an open economy and on establishing and maintaining democratic institution processes. The PASS has five objectives. The fifth objective concerns the sustainable management of natural resources, with special attention focused on the tropical hardwood forests and the protection of biological diversity.

2. Background

The Philippine Strategy for Sustainable Development (PSSD) identified the forestry sector as the top priority concern. The DENR, in its efforts to implement the PSSD and promote coordination of donor efforts, has convened a Donor's meeting on February 13-14, 1990. The donors, which included the USAID, responded to this call and dispatched a design team sometime in April, 1990 for the Natural Resources Management Program. The DENR has likewise created the DENR-NRMP Counterpart Design team by virtue of Special Order No. 367, Series of 1990. The USAID and DENR worked as one team and undertook series of discussions and consultations with the various stakeholders prior to the finalization and approval of the Program Assistance Approval Document (PAAD) which eventually led to the signing of the Grant Agreement on September 28, 1990.

The Program aimed to support ecologically sound long-term economic growth in the Philippines. Its implementation was focused on developing policies and management practices needed to sustain the country's forests which is considered an economically and ecologically important resource and laid the groundwork for assistance for other natural resources and environmental management concerns. The Program was originally designed to provide US\$ 125 million in grant funds over five years to support policy reform, resource protection efforts, related support services such as training, information, education and communication; monitoring, evaluation, and audit. An amount of US\$75 million was allocated for performance-based disbursements for the implementation of specified policy changes in six areas of forest management, program assistance of which was programmed in four (4) tranches: US\$25 million for non-government organizations debt-for-environment swap; US\$20 million to finance support services such as technical assistance, training, and research to aid policy implementation; and US\$ 5 million for monitoring, evaluation and audit.

3. Identification, Preparation and Appraisal

Preparatory project activities were undertaken in the last quarter of CY 1990 which include the selection of Technical Assistance Teams, negotiation with the Department of Budget and Management (DBM) for the GOP counterpart, identification and designation of project personnel and coordination with the Department of Finance and the National Economic Development Authority for the release of the first tranche of disbursement.

The evaluation and selection of Technical Assistance Team (TAT) was jointly undertaken by USAID and DENR selected personnel. Three (3) Technical Assistance Teams were contracted by USAID to assist the DENR in the performance of the agreed upon policy reforms/conditionalities as well as in the implementation of other Program activities. The Development Alternatives

Incorporated (DAI) was contracted for the policy implementation, Louis Berger (LBII) for policy studies and Winrock International, Inc. for the monitoring, evaluation and audit.

NRMP commenced implementation with the mobilization of the technical assistance teams, designation of project personnel and creation of the Project Support Office (PSO) by virtue of DENR Special Order No.84, Series of 1990.

4. Goal, Purposes and Expected Outputs

Goal : *To encourage ecologically sound long-term economic growth in selected areas of the Philippines*

- Purposes :
1. *To promote the economically and ecologically sustainable management of the Philippines' natural resources, with special attention to tropical forests and biodiversity*
 2. *To increase economic efficiency in the forests products industries*

The Program's expected outputs over the five years of its program life include the following:

1. Logging in the remaining old-growth forests has considerably decreased. The old growth areas, which are most critical for biological diversity and other protection values, are marked on the ground. Tribal groups and other local communities will be responsible for the protection and stewardship of these forests.
2. Through a "debt-for-nature" swap mechanism or other institutional arrangement, the activities of the NGOs towards forest conservation and environmental protection have been substantially advanced.
3. Tenure agreements for community forestry are sufficiently attractive and secure enough to snowball into other community forestry projects.
4. Management of the residual forests has been made more efficient through the use of detailed maps, reliable inventories and marking of management units on the ground. The GOP will transfer timber cutting rights through methods of appraisal and auction (timber production sharing agreements), leading to greater harvesting efficiency and revenue for the government.
5. Policies on timber pricing contain an effective implementation of "environmental fee" to help raise higher revenues for the government and for restructuring the forest products industries toward economic efficiency. The environmental fee will be the first step toward continuously improving pricing policies for forest resources.

6. Raw materials for the forest products industries represent increased proportions of plantation-grown wood and imported logs; the latter facilitated by deliberate policies to maintain low tariff barriers.
7. Exports of forest products including lumber, furniture, and rattan products result in increased foreign exchange, unimpeded by trade barriers.

5. Program Components

- a. **Policy Reform** – This component shall encourage the adoption of policies by the DENR and the GOP that lead to the sustainable use of the residual forests, the protection of old growth forests and preservation of biodiversity, the increased efficiency and competitiveness of the forest products industries, improved tenure security for the forest products industries, improved tenure security for upland actors (such as ICCs, upland families/communities, government licensees, etc.), and people's involvement in resource protection and conservation, among others.
- b. **Resource Protection** – This component provides for the funding of NGO-led resource protection and conservation activities. Releases for this component shall fund debt for nature swaps, the proceeds of which shall be used to endow the Foundation for the Philippine Environment (FPE).
- c. **Support Services** – This component shall help GOP/DENR attain the contemplated policy reforms through the funding of necessary studies, as well as the implementation of adopted policies in the field. Thus, the component is broken down into two: Policy Studies and Policy Implementation.
- d. **Monitoring, Evaluation and Audit** – The Monitoring, Evaluation and Audit component shall monitor the DENR's compliance of tranche requirements and evaluate the DENR's performance of policy reforms under the Program.

6. Engagement of Consultants

A. Policy Reform

Under the **Policy Reform Component**, two prime contractors have been mobilized, the **Louis Berger International Inc. (LBII)** for *Policy Studies* and the **Development Alternatives, Inc. (DAI)** for *Policy Implementation*.

LBII has been tasked to provide technical advisory services for the conduct of policy analyses, and to assist the DENR in formulating and advocating appropriate policy reforms aimed at ensuring ecologically sustainable economic growth of the forest products industry.

Under the Policy Reform Component, six (6) specific outputs/tasks are to be accomplished which are as follows:

- a. Analyze and recommend more secure land and resource tenure arrangements for upland settlers, indigenous cultural communities and forest license holders (Land/Resource Tenure Policy Studies);
- b. Recommend improvements in forest charge structures and systems, collection mechanisms and allocation procedures (Policy Study on Economics of Forest Charges);
- c. Assess impacts of potential and existing policies affecting forest products industries and develop policies to improve investment climate and programs for the forest industry sector (Forest Products Industries Study);
- d. Assess employment-related results of policy changes and develop forestry sector employment model (Employment Study);
- e. Help generate and promote efficiency in wood products industries by divesting/privatizing government-held equity (Privatization Plan) ; and
- f. Support research and training activities which will develop and transfer technology for the forestry sector (Technology Development and Transfer).

Under *Policy Implementation*, DAI provided the necessary technical assistance to the DENR in implementing activities to promote and advocate the conservation and sustained management of forest resources.

To accomplish these objectives, DAI shall provide technical services on the following areas:

- a. Establishing and testing a practical new system for planning and managing the country's residual forests complete with the necessary policy instruments, guidelines, budgets, and training with the end view of developing site-specific management plans for conservation and development of all of the nation's natural forests;
- b. Implementing a sustainable community forestry management program centered on the protection and management of residual forests and the preservation of old growth forests in order to motivate communities and local governments to take responsibility for the protection and sustained management of much of the country's forest estate;

- c. Enforcing the ban on logging in old growth forests, on slopes with gradients greater than 50 percent, and in areas with elevations 1,000 meters or more above mean sea level beyond the policy reforms directed at effectively stopping logging in the remaining primary forests;
- d. Improving the administration, program planning, implementation, monitoring and financial management of those regional and provincial offices most directly involved in old growth preservation, residual forest conservation and management, and community forestry management;
- e. Designing and implementing a comprehensive Information, Education and Communication (IEC) Program that will address two of the constraints to natural resources management i.e., inadequate information and lack of popular participation; and
- f. Utilizing a training plan to systematize the transmission and adoption of revised policies and procedures within DENR, and to NGOs, upland communities and local government units.

B. Resources Protection

From the design of the NRMP, the Resource Protection Component was envisioned to fund environmental NGOs as they carry out resource protection activities that implement the Philippine Strategy for Sustainable Development, and are consistent with the concept of the Integrated Protected Areas System.

The funding was designed to be managed by the Foundation for the Philippine Environment (FPE) making grants to NGOs, and was contemplated by the Program designers as perpetual endowment, with only the interest earnings of the fund spent for grant activities.

To provide technical assistance in the development of the FPE, the World Wildlife Fund (WWF) has been contracted by the USAID through a two-year cooperative agreement. Under this cooperative agreement, the WWF has linked with the Philippine Business for Social Progress (PBSP) in order to build consensus with local NGOs regarding the composition of the FPE's Board of Trustees.

Parallel to this endeavor, the WWF is also arranging for the actual swap of the resource protection grant proceeds. Under the U.S. Foreign Assistance Act, USAID cannot undertake the swap itself, although a USAID accredited NGO (Private Volunteer Organization) of proven ability in this area can do so.

C. Monitoring, Evaluation and Audit

Under the NRMP's Monitoring, Evaluation and Audit Component, the services of **Winrock International Institute for Agricultural Development (Winrock)** has been tapped, independent of the technical assistance contractors described above.

Contractor's primary role is to monitor the overall implementation of the policy reform component and to assess the effectiveness of the policies implemented in the following areas:

- a) Policy implementation monitoring, focusing on GOP compliance with policy reform actions necessary for disbursement of Program funding;
- b) Verification of policy implementation, focusing on the extent of actual on-the-ground implementation of NRMP's policy and regulatory changes; and
- c) Policy assessment, focusing on determining the soundness of policy reforms for achieving the overall program purpose, i.e., whether the policy reforms are producing the effects that were intended during the Program development.

At the outset of NRMP, it was determined that an Environmental Assessment (EA) would be carried out on selected policy actions which are initiated and/or being studied under the Program. These areas are:

- Old-growth logging ban;
- Alternative options for management of residual forests;
- Deregulation of forest products industries;
- Increase in forest charges; and,
- More secure tenure rights on forestlands.

Louis Berger International Inc. (LBII), the policy studies prime contractor, has been directed to organize and carry out the required studies and to conduct the actual EA.

7. Implementation Arrangements and Schedule

The DENR is the GOP's lead implementing agency. It interacted with the Department of Finance (DOF), Department of Budget and Management (DBM), and the National Economic Development Authority (NEDA) and staff from the Office of the President for the implementation of policies that affects national revenue and finance. These are the agencies that have the responsibilities/authorities in matters which pertain to the disbursement of

Program funds for the retiring official foreign debts, and in matters affecting the DENR budget.

On December 03, 1990, the DENR issued DENR Administrative Order (DAO) No. 84, Series of 1990, Creating the Organizational and Management Structure for the Implementation of the USAID-assisted Natural Resources Management Program. The DAO defined, among others, the organizational arrangements to be adopted by the program, identified the steering and coordinating committees as well as the different agencies to assist the program implementation and the respective responsibilities of each committee and agency.

Enumerated below are the highlights of DAO 84, Series of 1990, the NRMP organizational and management structure and the respective responsibilities:

a. NRMP Technical Coordinating Committees

i. Steering Committee

It shall be an inter-agency committee chaired by the Secretary of the DENR, or his designated alternate, who shall be responsible for the provision of policy directions for Program implementation. Members of the committee shall be from DA, DAR, DBM, NEDA, DOST, DTI, CB, NGO, and the private sector. DENR is the lead agency to be assisted by the DA, DTI, DAR, NGOs and private sectors. DOF, DBM and the Central Bank shall be responsible for the *disbursement* aspects of the policy reform component. NEDA and the DENR will monitor the progress of implementation of the Policy Reform Component and coordinate the progress reviews of GOP performance against the benchmark set.

ii. Technical Coordinating Committee (TCC)

The TCC shall coordinate and provide the necessary policy recommendations and technical inputs to Program implementation. It shall be chaired by the Under-secretary for Operations. Concerned Undersecretaries, Assistant Secretaries, Bureau Directors and heads of attached agencies shall form part of the committee.

iii. Program Support Staff

It shall be headed by a Program Coordinator hired on a full time basis to provide the necessary overall support to the Steering Committee and Technical Coordinating Committee. The Program support staff shall, among others, serve as the Secretariat for the Steering and Technical Coordinating Committee; consolidate/package technical inputs and reports from the

implementing units and coordinate preparation of reports/documents as required by oversight agencies.

b. Role of Concerned DENR Offices/Units

i. Policy, Planning and Project Management Office (PPPMO)

▪ **Planning and Policy Studies Office (PPSO)**

It shall supervise/coordinate the conduct of policy studies either contracted out or prepared in-house. It shall also assist in the preparation of TORs for pertinent policy studies; monitor policy changes; and facilitate issuance of DAOs and drafting of legislation in support of policy reforms. Moreover, it shall assist in the preparation of area development plans, and monitor compliance with policy conditionalities.

▪ **Foreign-Assisted and Special Projects Office (FASPO)**

It shall coordinate with the Finance Management Service of DENR in the preparation of annual budgets and work financial plans; monitor and evaluate financial disbursements and performance; and assist in the processing of budget releases. It shall also coordinate/assist in the preparation of TORs and selection of consulting firms; serve as direct liaison/contact point with other funding agencies; and assist in facilitating commodity procurement.

ii. Management Services

It shall oversee the handling of financial transactions; assist in the preparation of periodic accounting and financial reports on allotment and utilization; evaluate documents prior to procurement; and assist in the selection, recruitment and training of personnel.

iii. Environment and Research Office

▪ **Ecosystems Research and Development Bureau (ERDB)**

It shall coordinate/liaise with pertinent research and development institutions in support of NRMP implementation. It shall also assist in the preparation of TORs for research studies; monitor progress/impact of action research and other technical studies; and facilitate movement of research outputs towards technology application and dissemination.

- **Protected Areas and Wildlife Bureau (PAWB)**

It shall coordinate activities of NGOs at the project level with regard to IPAS; facilitate identification of protected areas for the debt for nature program; and facilitate/monitor progress of projects identified under the Natural Resources Protection component.

- **Environmental Management Bureau (EMB)**

The EMB shall lead the preparation of the Urban-Industrial Environmental Program design, in coordination with FASPO and other pertinent DENR units. In coordination with Field Operations and PPSO, it shall assist in the environmental assessment of NRMP-related activities.

iv. Forest Management Bureau (FMB)

In coordination with PPSO, FMB shall provide the necessary technical inputs in the conduct of policy studies and in the subsequent formulation of policy reforms. It shall extend technical support to sub-contractors in the preparation/design of implementation services for the following: management planning for residual forests; community forestry; preservation of old-growth forests; and regional/provincial technical services.

v. Field Operations Office

The Regional Offices shall perform the following functions:

- Provide over-all supervision in the smooth implementation of NRMP-related activities at the field levels;
- In coordination with the consultants hired under NRMP, provide the necessary technical assistance to field implementing units (i.e., PENROs and CENROs); and
- Monitor enforcement of policy reform decisions at the field levels and in the preparation of aerial surveillance plans.

The concerned PENROs and CENROs shall be directly responsible for implementing and enforcing policy reform decisions. They shall perform the following activities:

- Assist NGOs/sub-contractors in the preparation of area management plans and in community organization;

- Assist in the identification of technical/operational issues affecting the implementation of policy reforms; and
- Provide other services as may be necessary to facilitate smooth implementation of NRMP-related activities.

vi. Other Major Supporting Offices/Units

- **NAMRIA**

It shall supervise/coordinate the Contractor in the conduct of comprehensive resource inventories in residual and old growth forests.

- **Public Affairs Office (PAO)**

In coordination with the pertinent DENR units (i.e., EMB, NGO desk, ISF Secretariat, SCO-ICAD), PAO shall coordinate the preparation of the Program on Communications, Information, Training and Education (CITE). It shall also coordinate and facilitate the drafting of legislation in support of policy reforms and, likewise, act as the Program Liaison with the Legislature to expedite passage of proposed legislations.

8. Cost and Financing Arrangements

a. Cost Estimates and Financial Plan

US\$125 million in grant funds shall be provided for NRMP implementation. Disbursements will be spread over the project life span of five years subject to the tranching arrangements/requirements set forth in the Program Assistance Approval Document (PAAD).

The Program’s summary cost estimates per component allocation are shown below:

Policy Reform	-	US\$ 75 million
Resources Protection	-	US\$ 25 million
Support Services	-	US\$ 20 million
Monitoring, Evaluation and Audit	-	US\$ 5 million

In addition to agreements for advisory services, USAID will contract for progress reviews, mid-term and final evaluation, financial study, monitoring and possible audit requirements. An amount of US\$ 5 million shall be set aside for this purpose. Any unused amount for Natural Resources Protection, Support Services, and Monitoring, Evaluation and

Audit services will revert to performance-based disbursements for policy reform.

b. Program Disbursements

Upon the Government's compliance with the conditions precedent to initial and subsequent disbursement, USAID will disburse grant funds to be deposited in a separate NRMP Dollar Special Account with a GOP-designated bank. These funds shall be treated as separate and may not be combined with other funds owned by the GOP. Any interest earned by the Dollar and Peso Special Account will be treated as if it is a principal and will be used for the same purposes.

Upon the dollar transfer, the GOP will deposit in a Peso Special Account an amount in local currency equivalent to the dollar transferred. The peso equivalent of the dollar deposit shall be determined in accordance with the highest lawful prevailing rate of exchange of the Central Bank of the Philippines at the date of the conversion.

Any amount in excess of the budget category requirements as mutually determined by the GOP and the USAID will be reverted to the Peso Special Account which shall be re-programmed for budget categories as agreed upon by the two parties.

c. GOP Counterpart Contribution

The Government of the Philippines counterpart contribution amounts to no less than the value of 25% of the total Program cost excluding the cost of the resources protection component estimated to be at about US\$ 33.4 million. Specific budget line items or other agreed-upon budget line items shall be funded out of the counterpart contributions.

II. IMPLEMENTATION ACHIEVEMENTS

A. POLICY REFORM

Policy reforms were planned for performance-based disbursements to the GOP for the implementation of specific policies to enhance forest management and to improve the efficiency and productivity of the wood processing industry. This is shown in a policy reform matrix which specifies policy actions and performance indicators for disbursements under NRMP (**Annex Table A**).

The Policy Studies and Policy Implementation components were designed to assist the GOP in meeting the performance indicators for the eight (8) policy actions in the matrix, which would trigger the tranche release of funds to the GOP. Activities under each major task were oriented toward achievement of the Second Tranche Performance Indicators. With regard to the Third

Tranche indicators, several performance indicators had not been met which led to an abandonment of the tranche approach. And for the remainder of the Program, efforts were directed on continued analyses and policy development in support of NRMP's overall goal.

As a policy reform-driven program designed to support ecologically sound long-term economic growth in the Philippines, considerable achievements have been made on the implementation of the following eight (8) policy actions:

Policy Action No. 1 (Increase tenure security to encourage private investment in sustainable forestry management)

The policy action no. 1 is intended to reach three (3) distinct forest users: the Indigenous Cultural Communities (ICCs), the upland migrant farmers, and the Timber Lease Agreement (TLA) holders.

For the ICCs, the identification, delineation, and recognition of their claims to ancestral land/domain was manifested through the *issuance of DAO No. 2, Series of 1993* which prescribes the rules and regulations to identify, delineate, and recognize ancestral land and domain claims. *Special Order No. 25, Series of 1993* was also issued creating in every Provincial and Community Environment and Natural Resources Office, a Provincial Special Task Force on Ancestral Domains (PSTFAD), and a Community Special Task Force on Ancestral Lands (CSTFAL) to effect the proper implementation of DAO No. 2.

For upland migrant settlers, a *Memorandum of Agreement between DENR and Structural Alternative Legal Assistance for Grassroots (SALAG)* was signed on February 4, 1993 to assist upland settlers in resolving conflicts.

For TLA holders, *DAO No. 60, Series of 1993* was issued outlining the policy on the Industrial Forest Management Agreement (IFMA), entitled as "Revised Regulations and Guidelines Governing the Establishment and Management of Industrial Forest Plantations and Management of Residual Forests for Production Purposes". IFMA has replaced the Timber License Agreement (TLA). Its passage was expected to encourage the private sector – including TLA holders – to participate in the management and protection of both forest plantation and the existing residual forest within the area. The issuance is, likewise, considered as meeting the Third Tranche performance indicator on the provision of compensation for those whose TLAs have been cancelled for reasons other than non-compliance.

Policy Action No. 2 (GOP collect substantially larger percentage of economic rents of timber harvested on forest concessions)

Under this policy action, the government hopes to collect a substantial percentage of the forest rent to create incentives for careful and efficient extraction, and greater efficiency in forest products industries. Among the anticipated impacts of this policy action are as follows: a) encourage more careful forest management in order to conserve residual trees for future harvests; b) larger output of finished products from each unit of raw material; c) cessation of logging in fragile upland slopes where timber stands are meager, as it will be unprofitable to harvest given the increased fees that will be collected.

To pave the way for the accomplishment of the objectives of this policy action, GOP passed RA 7161 and its accompanying implementing guidelines in 1991. This legislation provides the basis for assessing forest charges for naturally-growing timber and non-timber forest products that are gathered from public forestlands, alienable and disposable lands, and private lands. DENR has enforced these laws and have succeeded in increasing the amount of forest charges collected from concessionaires. In fact, targets of forest charges collection (e.g. amount of forest charges collected in 1990 is 300% that of forest charges in 1989, and amount collected in 1991 is 500% of the collection in 1989) under NRMP have been met.

To ensure a higher collection rate of forest charges, DENR through a memorandum issued by the Undersecretaries for Field Operations and for Planning, Policy, Natural Resources Management on March 31, 1992 to the Regional Executive Directors (RED), has included the collection of forest charges as one of the MUST key result areas (KRAs). Further, DENR issued on March 31, 1993, DAO No. 15 which provides for the evaluation and monitoring of the assessment/collection of forest charges. The target performance standard (similar to the fourth tranche indicator of this policy action) is a collection of 80% of the amount of forest charges due based on actual assessment per month. The passage of RA 7161 and the issuance of its implementing guidelines and related documents have practically institutionalized the policy for collecting higher forest charges.

To determine the degree at which the policy is being implemented on the ground, collection of data on forest charges paid by TLAs in 1992 was conducted. On the basis of the Annual Concession Reports of TLAs available at FMB and/or at regional or CENR offices, the collection efficiency (ratio of forest charges collected to forest charges assessed) was estimated. The estimated efficiency ranges from 80% to 100%, or an average collection rate of 89%. This exceeds the performance target of 80% as fourth tranche indicator and as a MUST KRA for each region by DENR.

Policy Action No. 3 (Revoke or amend regulations that restrict the efficiency or competitiveness of the forest industry)

This policy action aims to promote efficiency and encourage adaptation within the changing forest resource conditions. To attain these objectives, removal of constraints to the movement of inputs, products, and technology as well as barriers to movement to and from the industries are encouraged.

The overall performance indicator for Policy Action No. 3 is “Formal GOP (DENR) action taken to implement agreed upon regulatory reforms in the sector”.

The five areas of concern for promoting efficiency and competitiveness of forest-based industries include: a) creation of the forest industries development board, b) export-import deregulation, c) species-specific harvesting ban, d) transport deregulation, and e) area-specific ban.

The first and fifth area of concern had been contingent on the passage of the Proposed Forestry Code and the proposed bills on logging ban.

In the case of export-import deregulation, the tariff reform program through E.O. 470, 1991 granted exemptions to a list of raw materials and capital equipment needed for local production which included zero tariff for logs and rattan. Logs and rattan were among those delisted from the list of exemptions under E.O. 172, 1994.

Administrative orders on deregulation of transport and species-specific ban (narra), and Memorandum Circular on the export of logs and lumber from plantation have been signed by then Secretary Angel C. Alcala. Specifically, these are:

DAO No. 58, Series of 1993 – “Rules and Regulations Governing the Extraction, Assessment, Processing, and Transport of Narra Resources”.

DAO No. 59, Series of 1993 – “Revised Rules and Regulations Governing the Transport/Shipment of Logs, Lumber, Plywood, Veneer, Non-Timber Forest Products and Other Forest-Based Products/Commodities”.

MC No. 33, Series of 1993 – “Policy on the Exportation of Logs, Lumber, Boules, Finished and Semi-Finished Wood Products from Tree Plantations”.

An Executive Order (E.O.) for the creation of the Philippine Forest Industries Board (PFIB) was drafted and endorsed for approval but no significant headway or progress was made due to several issues and concerns. It was noted that the draft E.O. puts too much power to the Board and creates another layer of bureaucracy inconsistent with current efforts at streamlining the government.

Policy Action No. 4 (Encourage private investment and competition in sector by divesting/liquidating parastatals and/or GOP equity/assets in forest enterprises)

This policy action aims to promote the efficiency and competitiveness of the forest industry by divesting/liquidating GOP equity/assets in forest enterprises. GOP acquired most of these assets as a result of foreclosure on loans owed to Government Financing Institutions (GFIs). To achieve this policy objective, GOP, through the Asset Privatization Trust (APT) and the Commission on Privatization (CoP) has actively pursued its privatization program to expeditiously dispose and privatize certain government corporations and/or equity/assets thereof.

At the start of NRMP, eleven forestry firms have been identified for privatization with total aggregate GOP equity/assets of P4.17 billion. These are:

- Cellophil Resources Corporation
- Cresta Monte Wood Producers
- Durano Trading Corporation
- Manila Seedling Bank Corporation
- Mindanao Plywood Corporation
- Paper Industries Corporation of the Philippines
- Santa Clara Lumber
- Santa Ines Melale Forest Products
- Sirawai Plywood
- Visayan Box Factory, Inc.
- Woodwaste Utilization Development Corporation

The total GOP equity/assets in forestry that has been sold or offered for sale amounted to P3.8 billion worth or 90% of the total GOP equity/assets. This has more than exceeded the target for the fourth tranche of 50% of GOP equity/assets being offered for sale.

PICOP constitutes 63% of the total GOP assets in forestry firms such that offering it for sale culminated towards an almost complete privatization of GOP equities in the forestry sector. A consortium consisting of the Valderrama Lumber Manufacturing Corp., Rosary Industries Ltd., and London-based Michael A. Adams (MAA) Corp., bested a Ramon-Recto-led group over the purchase of PICOP with a bid price of P2.42 billion. Only 90% of the total GOP equity in the firm was sold as the remaining 10% was offered to small investors which included PICOP employees.

Cellophil and Sta. Ines Melale which are considered as hard-to-sell assets have been offered several times to public since 1992 but there were no takers. Some of the factors that hinder the privatization of these properties

are site/location, non-operating condition of the assets, and unavailability of wood supply.

Policy Action No. 5 (Preserve remaining old growth forests (OGF) and the biodiversity contained therein)

Policy Action No. 5 calls for the preservation of the remaining old-growth forests and the biodiversity contained therein. It is an affirmation of the strong commitment of the GOP to finally stop the wanton destruction of forest resources. The policy was formulated in recognition of the ecological, economic, and socio-cultural value of the old-growth forests.

The landmark of this policy action was the issuance of DAO No. 24, Series of 1991 which legally ban logging in all OGF areas effective January 1992. In support of the ban, the DENR has launched various programs and activities in 1993, such as the Integrated Protected Area System; the Community-Forestry Program; the ADB-funded ground demarcation of OGFs; and the ENR-SECAL log control monitoring system and multi-sectoral protection committees which have direct bearing on the preservation of OGF areas.

NRMP has undertaken an aerial reconnaissance of closed canopy forests in the Philippines in 1992 in support to DAO No. 24, S. 1991. About 1.8 million ha of closed canopy forest stands were located. Results of the aerial reconnaissance formed the initial basis for ground delineation and demarcation of the closed canopy stands.

NRMP has also contributed to the policy action no. 5 through its community forestry component under Support Services, including capability building for OGF preservation; and through FPE under Resources Protection where it awarded P40 million in grants to NGOs mostly for biodiversity protection projects.

Policy Action No. 6 (Rationalize DENR management of residual forests and provide adequate financial resources to carry out its mandate)

This policy action is intended to come up with sustainable management strategies and options for residual forests where the logging activities have shifted from the old growth forests. Management strategies developed consist of Residual Forest Management Planning and Local Community Management of Residual Forests.

Through the NRMP's Conservation and Development of Residual Forest (CDRF) component under Support Services, a new planning system for the residual forests was formulated and tested by contracting forestry service organizations (FSOs) to conduct comprehensive inventories and produce resource management plans in pilot and expanded test areas. This new

planning process is designed to be cost-effective, proactive, holistic, and resource driven. It involves among others the active participation of local communities and FSOs in resource inventory, planning and management, and the generation of resource management options through an integrative analysis of biophysical, physical, socio-demographic, economic, and institutional formation. The pilot-working areas are located in San Pablo, Isabela; Paranas, Western Samar; and Baganga, Davao Oriental. Expanded test areas include cancelled TLA areas in Nagtipunan, Quirino; New Bataan, Davao del Norte; and Lianga, Surigao Sur. The plans covered 109,300 hectares representing various agro-climatic conditions of the country and found in canceled/abandoned/ suspended TLAs.

For the local community management of residual forests, there were 17 CFP sites assisted and organized by Assisting or Nongovernmental Organizations (AOs/NGOs). The AOs/NGOs provided assistance in community and organizational development, resource inventory and evaluation, enterprise development and management, preparation of community resources management and development plan, and other community-related activities.

Another performance indicator for policy action no. 6 is DENR budgetary appropriations for forest management. This policy action recognizes the need to provide adequate financial resources to successfully carry out the rationalization of management of residual forest. For the entire DENR, the approved budget for FY 1993 was P3.6 billion or about 19% greater than the approved budget for FY 1992, and about 3% less than that allocated in FY 1991. The approved DENR budget for FY 1993 includes appropriations for forest management activities amounting to about P1.8 billion (or 51% of total DENR budget for FY 1993). This is P760 million or 70% more than what was appropriated for forest management for FY 1991. An analysis of the DENR budget allocations by forest management activity shows that generally, the maintenance and protection of existing plantations, establishment of new plantations, personnel services, watershed rehabilitation/administration, and social forestry received substantial allocations from 1991-1993. In contrast, natural forest protection was not given priority in budget allocation considering that the rate at which these forests are being lost is relatively high.

Policy Action No. 7 (Facilitate technology development and transfer in forestry management and preservation plus wood processing)

This policy action presupposes that an effective generation, dissemination, and utilization of appropriate technologies will contribute to equitable and sustainable forest resource management and efficient forest products utilization.

Under the Technology Development and Transfer (TDT) component of the Policy Studies (Support Services), there were a total of seven (7) technology

commercialization (TC) projects, and ten (10) R&D projects funded and/or implemented with a budget of P14.042M and P15.9M, respectively. The TDT program has adopted three strategies to facilitate transfer of appropriate forestry technologies. These were: a) technology commercialization through the rural-based enterprise development approach; b) technology demonstration; and c) technology promotional training.

The TC program was designed to test commercially viable and community-based livelihood projects, involving technologies geared toward sustainable forest management. These projects were:

Palawan

- a. Commercial woodworks enterprise in conjunction with lowland tree planting - by Foundation for People's Livelihood and Welfare, Inc. (FPLWI)
- b. Nursery for Palawan's Indigenous Tree Species - by Palawan Lumber Company (PALUMCO) and FPLWI
- c. Rehabilitate and manage a communal forest in a disengaged TLA area in Candes, Bacungan, Puerto Princesa, Palawan - by FPLWI

San Mateo, Rizal

- d. Community-based nursery, timber and fuelwood enterprise development – by Malanday Multipurpose Cooperative, Inc. (MMCI)

Bukidnon and Misamis Oriental

- e. Wood-based Integrated Development of ISF Areas: Production and processing components – (by Jireh Industries)

Davao del Norte

- f. Establishment of commercial scale bamboo production - by Kiblawan Rural Development Foundation, Inc. (KRDFI)
- g. Harvesting and utilization of an established bamboo plantation on an economic rotation system – (by KRDFI)

The R&D component was designed to support basic and applied research that will generate scientific information to improve forestry policies and management strategies.

These projects were:

- a. Wood products development, utilizing lesser-known species (LKS) and lesser-used species - by the Forest Products Research and Development Institute (FPRDI - DOST)
- b. Pilot milling of starch-based adhesives for plywood manufacture - (by FPRDI)
- c. Pilot production of almaciga resins - (by FPRDI)
- d. Process development and testing for wood plastic composites for flooring materials - (by FPRDI)
- e. Comparative analysis of biodiversity and growth rates in old growth forests and residual forests – by the University of the Philippines at Los Baños (UPLB)
- f. Assessment of productivity and cost factors in labor-intensive timber harvesting operations - (by UPLB)
- g. Development of tree volume equations for residual species in forest plantations - (by UPLB)
- h. Development of statistical models for growth and yield of reforestation species in plantations - by the Ecosystems Research and Development Bureau (ERDB-DENR)
- i. Assessment of assisted natural regeneration methods - (by ERDB)
- j. Feasibility of limited forest production concept (LFPC) and non-timber forest products (NTFP) methods - (by ERDB)

Policy Action No. 8 (Increase local community and NGO participation in forestry management)

The purpose of this policy action is to increase local community and NGO participation in forestry management. The strategy used to effect this policy action is through Community Forestry Program (CFP) whereby the community is directly involved in resource management with the assistance primarily of non-governmental organizations (NGOs).

NRMP contracted 17 NGOs to implement the Community Forestry Program (CFP) in 17 sites around the country. NRMP provided training and on-site technical assistance to the NGOs. Seven (7) People's Organizations (POs) were awarded with Community Forest Management Agreements (CFMA), out of the 17 communities assisted. This is shown in **Annex Table B**.

The highlights of policy actions to institutionalize CFP and its processes were manifested in the following administrative order issuances:

DAO No. 22, Series of 1993, "Revised Guidelines for Implementing Community Forestry Program".

It is noteworthy to mention that the past and current lessons learned in the CFP implementation was taken into consideration in the revision of the guidelines. Specifically, DAO No. 22 sets the major policies and guidelines

for implementing CFP and outlines in clear terms the phases of implementing CFP projects. To broaden the groups that can be tapped to assist local communities, the DAO no longer limits the assisting organizations to NGOs but included as well other organizations like academic institutions and corporations with strong social commitment.

An accompanying CFP Manual of Operations on Community-Based Forestry and Management Program was also produced. This is a series of manuals which focus on the technical, economic/financial and social components including community organizing, training, monitoring and evaluation, and preparation of management plan.

DAO No. 62, Series of 1993, "Institutionalizing Community Organizing as an Approach and Strategy in the Planning and Implementation of Program and Projects in the DENR and providing funds Thereof".

This issuance enshrines community organizing as an approach and strategy to attain the national goals of conservation, development, and management of the country's natural resources. Thus, DENR "shall use community organizing in the planning, organization, and implementation of programs and projects in consultation and in partnership with the people of communities affected in project and program implementation.

DAO No. 65, Series of 1993, "Integration of CFP to the DENR Regular Structure".

DAO No. 16, Series of 1994, "Amendments to DAO 65, S. of 1993".

DAOs Nos. 65 and 16 were attempts at integrating CFP to the DENR regular structure. Under these DAOs, the NCCO and the Regional CFP Coordinating Office which were formerly "ad hoc" units were integrated to the FMB and the Regional ISF Divisions, respectively.

MC No. 20, Series of 1993, "Billing and Payment Procedures for CFP".

Special Order No. 634, Series of 1993, "Designating Project Management Officers for Community Forestry Projects".

Special Order No. 1161, Series of 1992, "Establishment and Operationalization of CFP Regional Distillation Group (RDG)".

The RDG is a mechanism for synthesizing lessons learned, field reports, observations, and experiences into usable CFP guidelines, procedures, and policies. It is also a means for facilitating program decision making and resolution of critical issues at the regional level. To prevent the existence of so many committees and "ad hoc" groups in the regions, the members and

functions of the RDGs were subsequently integrated with the Regional Upland Development Committee that already existed in the regions.

B. RESOURCES PROTECTION

This component aimed to support activities that conserve biological diversity and enhance natural resources management in cooperation with local and US-based NGOs. A debt-for-nature swap is the chief financial mechanism in this component to generate funds for the establishment of an endowment to sustain NGO activities in the field. It is a mechanism whereby international funding agencies can buy a portion of a country's debt, and convert the debt into local currency to use the proceeds for fund conservation activities.

USAID and World Wildlife Fund (WWF) signed a cooperative agreement in 1991 to complete the first \$5 million debt-for-nature swap. In 1993, an additional \$13 M of debt papers were purchased. Proceeds from this swap were used to establish the Foundation for the Philippine Environment (FPE) with membership consisting of academics, coalitions of NGOs, and other interest groups. FPE provides grants, facilitates funds and acts as catalyst for projects that conserve biological diversity and promote sustainable development.

There were 30 regular grants and 14 proactive grants approved with total amount of P30.6M and P8.7M, respectively. Regular grants are those in which proposals originate from the proponents, while in proactive grants, the idea for the project originates from the FPE. Consequently, NGOs are invited to submit proposals for project implementation.

In addition to the two types of grants, the FPE also awarded 25 action grants with a total amount of P2.5M. Action grants are given to those proposals needing quick attention and with amounts of around P25, 000 or less.

A listing in **Annex Tables C.1 and C.2** of the regular grants and proactive grants awarded to NGOs and academic institutions cover a wide variety of activities in different ecosystems. Over half of the regular grants are directly or indirectly related to the preservation of OGFs.

C. SUPPORT SERVICES

This component aimed to assist the GOP in implementing agreed-upon policy reforms. Services include technical assistance, training, communication and research in areas essential to the success of the Program, and analyses that will provide the basis for future environmental investments.

There are two (2) sub-components under Support Services, such as, the Policy Studies designed to facilitate attainment of the contemplated policy reforms, and the Policy Implementation for adoption of policies in the field.

Under Policy Studies, there are six (6) tasks or areas of study that support the Policy Actions in the Policy Reform component. These are:

Task A – Land Tenure (supports *Policy Action No. 1* - increase land tenure).

Task B – Forest Charges (supports *Policy Action No. 2* – increase forest charges).

Task C – Forest Product Industries (supports *Policy Action No. 3* – FPIs' regulations).

Task D – Employment

Task E – Privatization (supports *Policy Action No. 4* – private investments).

Task F - Technology Development and Transfer (supports *Policy Action No. 7* – facilitate TDT).

Under Policy Implementation, support services for the adoption of policies in the field consist of:

a. Community Forest Management (supports *Policy Action No. 8* – local community participation)

b. Conservation and Development of Residual Forests (supports *Policy Action No. 6* - rationalize residual forest management)

c. Old Growth Forests/Aerial Reconnaissance (supports *Policy Action No. 5* – OGF preservation)

d. Regional, Provincial, and Technical Services

e. Training and extension

f. Information, education, and communication (IEC)

Policy Studies

The principal results for each task are capsulated as follows:

Land/Resource Tenure

A proposed consolidation of instruments and programs was developed in conjunction with DENR to improve tenure security for indigenous communities, upland migrants, and timber license agreement holders. Improved procedures to identify, delineate, and recognize ancestral lands and domains were developed and resulted in the promulgation of an Administrative Order prescribing the rules and regulations for this process. The implementation of this Order was pilot-tested in three representative sites: the Bugkalot ancestral domain claim straddling the boundaries of the provinces of Quirino, Aurora, and Nueva Vizcaya; the Palawan ancestral domain claim in Rizal, Palawan; and the T'boli and Ubo ancestral domain claims in Lake Sebu, South Cotabato. In order to strengthen institutional capability for conflict resolution, a MOA was entered into by the DENR and SALAG, an NGO providing legal assistance in the rural areas.

The following are the major studies and documentation reports in support to Policy Action No. 1:

- a. Land/Resource Tenure Legal and Policy Framework
- b. Land/Resource Tenure Secondary Information and Consultations
- c. Improved Procedures for the Identification, Delineation, and Recognition of Ancestral Land and Domain Claims
- d. A Review of the Applicability of Current DENR Tenurial Instruments to Issues Related to Ancestral Domains
- e. Field Consultations with ICCs
- f. Tenurial Instruments, Associated Legislation and Administrative Procedures Incorporating Features of Traditional Tenure and Land Use Systems
- g. Enhancing Tenure Instruments for Upland Settlers
- h. Conflicts Arising from the Issuance of Land Tenure Instruments for Upland Settlers
- i. A Report on the Pilot Implementation of DAO 2 and S.O. 25, S. 1993.
- j. Policy Initiatives Toward Consolidating Community-Based Resource Management Programs and Upland Tenurial Instruments
- k. Ancestral Domain Program Management Plan
- l. Policy Proposals for Land Tenure Conflict Resolution

Economics of Forest Charges

By 1991, significant revenue increases were achieved through the promulgation of an environmental fee and increased rates. However, future revenue prospects were constrained by the way in which tax is computed, the overall decline in timber production, and the existence of underreporting and illegal operations. In addition, the policy has not visibly led to either more efficient processing or more prudent forest utilization.

In addition to the collection of forest charges which is part of the regular activities of all CENROs concerned, DENR through the assistance of the NRMP-Policy Studies Team has completed in 1993, policy studies designed to provide basis for strengthening policy action no. 1. These studies include the following:

- a. Log valuation and economic analysis of RA 7161: financial and economic rent capture;
- b. Stumpage valuation methodologies: some alternatives to forest revenue collection and timber disposal systems;
- c. Increased forest charges in Philippine forestry: implications for forest management and government revenue; and
- d. Towards a revised framework for allocation of forest harvest rights.

- e. Forest Revenue Systems for the Philippines: Background Issues, Concepts, and Policy Framework.
- f. An Assessment of Forest Revenue Collection

Forest Products Industries

Studies were identified and carried out, leading to specific policy actions and reforms, such as the lifting of the ban on narra harvesting; the consolidation of existing report regulations; improvements to Industrial Forest Management Agreements (IFMAs); and the consolidation of transport regulations.

The studies conducted were:

- a. Assessment of DENR Transport Regulations, Policy Implications and Recommendations.
- b. Methodology for Assessing Species-Specific Logging Restrictions: A Case Study of Narra.
- c. The Logging Moratorium Policy in Nueva Vizcaya and Samar: Preliminary Assessment and Recommendations.
- d. Harmonizing Forest Management Agreements: Policy Issues and Options
- e. Feasibility Study for Wood Processing Centers and Policy Recommendations for Wood Products Import/Export Regulations.
- f. Forest Products Industries: Recommended Policy and Regulatory Changes.
- g. Philippine Forest Industries Board Viability Study.

Further analysis shows that there are other historically-determined constraints which were not directly considered within the Policy Action 3 framework, but should be considered in future policies. These include: a) insecure tenure, and b) inefficiencies and declining competitiveness in the global economy.

Employment

The employment studies provided many insights which have contributed to current thinking about natural resources policy. These include: a) the significance of forest-related employment in formal and informal sectors; b) the role that community-based approaches can play in generating employment in harmony with sustainable natural resource management practices; and c) the importance of small processing of forest-based finished and semi-finished products in employment generation. These studies consist of:

- a. Forestry Employment Models
- b. Employment Growth Opportunities
- c. Employment Opportunities Under the Community Forestry Program

- d. Transfer Training on Employment Monitoring
- e. Baseline Data on Forestry Employment
- f. Research Methodology for Baseline Data Collection on Forestry Employment
- g. NGO Participation in Data Compilation for Informal Forestry Employment

Privatization

The activities of the Committee on Privatization (CoP) and the Asset Privatization Trust (APT) eventually fulfilled the conditions of the Performance Indicators. On the other hand, the broader goals of increased competition, private investment, and improved efficiency have not been achieved. This is because the Government was not directly involved in operating the forestry-related firms in which it acquired assets.

Short-term consultant reports generated in this task were:

- a. Privatization: GOP Industry Assets
- b. Privatization: GOP Valuation, Marketing, and Divestiture Strategies; and
- c. Privatization: Marketing Strategy and Divestment Protocol.

Technology Development and Transfer (TDT)

The broad objective of the TDT program is to provide support to sustainable forestry and forest-based enterprises development through the application of appropriate technologies. The TDT program has three (3) components: Research and Development (R&D); Technology Transfer (TC); and Training (Tr). There were ten (10) R&D projects and seven (7) TC projects that were implemented. The R&D and TC projects were in various stages of completion at the time of NRMP I completion. In all, twelve (12) in-country training activities were carried out for 600 participants and eight (8) overseas training activities for 68 participants.

The main conclusions and recommendations for NRMP II were: a) both R&D and TC should link more closely to the CFMA activities, through a two-way feedback mechanism; b) the TC projects can be considered “mini-laboratories” for CFMA livelihood projects; c) R&D agendas and feedback can be built around regular linkages with the CFMA sites; and d) the TC Seed Fund is potentially a strong basis for establishing a small enterprise finance facility for CFMA sites in NRMP II.

The Seed Fund concept aims that the initial TDT grants can be multiplied by the number of times the fund is repaid by TDT grantees and reused for enterprise development. This ripple effect assumes the replication of NRMP

project objectives and expansion of benefits to a larger populace. Repayments of the seed fund are channeled to an Upland Development Trust Fund which is managed by PCARRD and its R&D consortia. Thus, PCARRD through the consortia is mandated to monitor and evaluate the progress of the NRMP-TDT projects. The implementation of the TDT program has built on the existing network of PCARRD and other institutions such as DOST, ERDB, and FPRDI.

Environmental Assessment

The Environmental Assessment (EA) was a pilot exercise to examine the indirect impact of five (5) out of eight (8) policy actions of the NRMP program. In addition, the EA was designed to enhance public participation in the assessment process and assist in the redesign of the original NRMP policy program. The EA was carried out in three (3) phases: a) scoping; b) analysis; and c) environmental action plan.

Scoping results suggested that highest priority be given to the Program-wide issues and areas where environmental risks could result in each of the five policy actions subject to EA. The issues identified were:

- Limited DENR implementation capability
- Unanticipated cross-policy interactions
- Increased forest charges – more effective and environmentally sound alternatives may be available that can reduce dependence on unestablished mechanisms.
- Residual forest management – selective logging systems may lack sufficient management basis, features, and guidelines; may not represent best use; and may fail to promote environmentally sound and sustainable utilization.
- Forest industries deregulation – alternatives to NRMP-proposed measures that can provide more effective and environmentally sound incentives to increased investment and sustainable management may be available.
- Old-growth logging ban implementation – prolonged implementation may erode ban benefits and carry high risk of interim forest loss; ban associated measures may be inadequate, ineffective and environmentally unsound.
- Increased tenure security – NRMP-associated tenure actions and instruments may lack sufficient environmental provisions.

A key feature of the scoping-identified issues was the uncertainty and difficulty in quantifying the program's environmental impacts. Many issues raised in scoping did not challenge the objectives of policy reform. Instead, they raised concerns about whether, and how, those intentions can be fully

realized given the uncertainties and complex interrelationships surrounding policy assumptions and implementation capabilities.

The majority of the environmental risks identified were those concerning the Program's falling short of its objective of improving existing environmental conditions or only marginally improving those conditions. All the policy actions had to deal to some extent with the common Program-level constraints of limited implementation capabilities and complex cross-policy interactions, often outside the control of the Program.

Environmental risks were analyzed for two alternatives: terminate the Program or proceed with the focused alternative. In light of specific findings, many of which arose from the policy studies, focusing alternatives were identified for the redesigned project. Remaining environmental risks of the focused program led to recommendations for program enhancements incorporated into the Environmental Action (EA) Plan.

The EA Plan was drawn up to establish a framework for the implementation of mitigation and monitoring measures growing out of the previous assessments. The EAP involved area-based environmental guidelines for forest management interventions, based on the above concerns, adjusted and tailored to specific site conditions.

In accordance with DENR environmental procedures and review requirements, these simplified checklists would be developed within the framework of the EIS system process, and will serve as basis for EIA or Project Description, and eventual issuance of Environmental Exemption Certificates of Environmental Compliance Certificates for each future NRMP II project site.

Policy Implementation

Community Forest Management

This work element has the task of implementing a sustainable community forestry management system for protecting and managing upland areas characterized by residual forests by assisting communities that have grown up in and adjacent to the forested lands through assisting organizations (AOs).

The status of major activities in CFP sites prior to NRMP I completion is indicated in **Annex Table B** with the corresponding NGOs awarded with contracts to assist the communities. Out of the 17 pilot NRMP-CFP sites, 7 were issued CFMA; 9 have first draft of Community Resource Management and Development Plan (CRM DP); and 13 community organizations were registered with the Cooperatives Development Authority or the Securities and Exchange Commission. Four (4) NGO contracts were also pre-terminated in

the process of periodic monitoring and validation of NGO outputs and activities due to non-performance of their obligations as specified in their service contracts. These were: Integrated Community Resources Development Foundation, Inc. (ICRDF); Greenyearners Association, Inc., Integrated Watershed Management and Development Foundation, Inc. (IWMDF); and the Jadders Foundation, Inc.

Three (3) CFP process documentation reports were also generated in 3 CFP sites, such as: Claveria, Misamis Oriental; Dipaculao, Aurora; and Labo and Capalonga, Camarines Norte through De La Salle University that was contracted to do it. The documentation reports provided lessons and insights in CFP implementation, and details of CFP experiences. To support the CFM training, manuals were developed on resource rehabilitation and improvement methods for CFP; perimeter survey and mapping; rapid rural appraisal for CFP; and a teacher's guide for workshops on mapping and resource appraisal.

The relevant training conducted for CFM implementation consist of RRSA and Perimeter Survey and Mapping; Resource Rehabilitation Techniques for CFP; Forest Resources Inventory; Resource Inventory Data Integration and Analysis; Enterprise/Livelihood Planning and Development; CRMDP preparation; Workshop on Thematic Maps and Resource Appraisal; Social Organizations and Development Work; Workshop on CFMA Issuance, and M&E of CFP.

Conservation and Development of Residual Forests

This work element has the task to establish and test a practical new system for planning and managing the country's residual forests complete with the necessary policy instruments, guidelines, budgets, and training with the end view of developing site-specific management plans for conservation and development of all of the nation's natural forests. This is in pursuant to DENR's administrative order mandating the application of a comprehensive resource management planning process for industrial residual forest areas, and complete manuals and guidelines for all aspects of the process.

The outputs and accomplishments come in the forms of manuals, guidelines, recommendations on existing policies, and resource management plans as follows:

- a. Six (6) model forest resource management plans (RMPs) and one (1) model indicative forest development plan covering 109,300 hectares.

Out of these 109,300 hectares, only 40,800 hectares were covered by biophysical resource inventory; and about 103,000 hectares with aerial photography. All communities inside and nearby the forest resource were subjected to community profiling and household

survey. The RMPs for the pilots in Baganga, Davao Oriental; Paranas, Western Samar; and San Pablo Isabela were the precursors of the plans that were used in the expanded CDRF test sites in Lianga, Surigao Sur; New Bataan, Davao del Norte; and Nagtipunan, Quirino.

The Forest Service Organizations (FSOs) contracted out to conduct comprehensive forest resource inventory, data analysis, and prepare the RMPs were: a) Technologists for Optimal Programming and Development, Inc. (TOPDI); b) Soil and Water Conservation Foundation, Inc. (SWCFI); c) A.G. Veracion and Associates (AGVA); d) UPLB Foundation, Inc., and e) Universal Cartographic Development Corporation (UCDC).

A sub-contract with the Certeza Group was also executed for the aerial photo and mosaicking of the expanded test sites.

- b. Recommendations for the Modifications of DAO 60, S. 1993, and DAO 27, S. 1991 in light of increasing IFMA applications at DENR.

The recommendations include the procedures and steps in adopting the pro-active, equity focused, comprehensive, and resource-driven forest planning and allocation process.

Training sessions were conducted for DENR field staff and FMB on the quality control/quality assurance process, modified strip/cluster method of resource inventory, community profiling, GIS using ATLAS software, and SYSTAT/MSTATC software.

- c. *Manual on the Conduct of Comprehensive Forest Resource Inventories*. This manual provides instructions on the conduct of biophysical, social, institutional, demographic, and economic surveys in forestlands.
- d. *Assessment and Evaluation of the Fixed Area Cluster Method and Recommendations for the Adoption of Modified Cluster or Strip Method of Biophysical Resource Inventory*. This provides an analysis of why the fixed area cluster method could be modified into more efficient and precise method of biophysical forest resource inventory.
- e. *Manual on the Conduct of Quality Control/Quality Assurance Process for Comprehensive Forest Resource Inventories*. This manual focuses more on the biophysical aspect of the comprehensive forest resource inventory.
- f. *Manual on the Conduct of Economic Analysis of Comprehensive Forest Resource Inventories*. This provides instructions and

guidelines on how to do economic analysis of forestlands areas based on the results of community profiling and household surveys.

- g. *Manual on the Conduct of Spatial Information System (SIS) for residual forests.* This provides instructions on how to use SIS in generating viable resource management options for managing forestland areas.
- h. *Lessons Learned in the Implementation of PSA No. 001 in Lianga Bay, Surigao Sur.* This summarizes the key lessons in the implementation of coop-based forest management agreement with immediate harvesting rights.
- i. *Guidelines in the Statistical Analysis of Data from Comprehensive Forest Resource Inventories using SYSTAT and DBASE3+ softwares.*
- j. *A Study on the Establishment and Management of Forest Planning Fund.* This provides a review and analysis of existing policies on the establishment and management of “trust fund” that may be used to finance the pro-active and new forest planning and allocation process.

Old Growth Forests/Aerial Reconnaissance of Closed Canopy Forests.

This work element is in support to DAO 24, Series of 1991 which bans logging in the closed canopy forest stands. The objective was to locate and determine the extent of the closed canopy forests in the Philippines.

A total of about 1.8 million ha of closed canopy forest stands were located. The country lost 1,000,542 hectares of 36 percent of its closed canopy forests between 1981 and 1992. Region 2 had the largest decrease in forest area, followed by Region 10, CAR, and Regions 12, 1, 11, 8, 3, and 9 in that order. The reduction of closed canopy forests was attributed directly to timber harvesting.

Results of the aerial reconnaissance served as the basis for ground delineation and documentation of the closed canopy stands. This information was used for effective protection and management, such as in determining which regions will receive priority in the deployment of limited human resources, funding, and equipment.

Outputs of the aerial reconnaissance were:

- a. Colored vertical videography from a hand-held movie camera with voiced coordinates using a GPS device on board the fixed wing aircraft, and on board a helicopter.
- b. Colored still pictures and maps with scales of 1:50,000 and 1:25,000 indicating the location and extent of the verified closed canopy forests.
- c. Overlays showing the threats to the closed canopy forests such as active logging, timber flitching, active slash-and-burn agriculture, mining, road construction, and illegal occupancy.

The aerial reconnaissance work was sub-contracted to Aero Forestry Resources, Inc. (AFRI).

Regional, Provincial, and Technical Services

This consists of assisting the regional and provincial planning units to integrate new policies and programs relating to forestry sector into their ongoing activities. The objective was to strengthen the regional and provincial offices since major progress had been made to decentralize DENR's activities. It also assisted the field office financial management units in streamlining their operations and upgrading their capability for accurate accounting and prompt reporting; and provided hands-on training in the GOPs established decentralized disbursement system. Major accomplishments consist of System and Database Development such as the Provincial ENR Management Planning System; the Provincial-Level Area Ecological Profiling System; the General Guidelines on ENR Planning and Budgeting; the Provincial Financial Management System Manual; and the Contract Management Manual. Other activities also pursued in this sub-element were in support to the implementation of the 1991 Local Government Code.

The RPTS training and workshops undertaken are in **Annex Table D**.

Training

This work element is integrated into the different sub-components of the Policy Implementation, such that relevant training and workshops conducted are indicated in the respective sub-elements like CFM, CDRF, and RPTS.

A complete list of publications, manuals, and technical reports produced by the Program is in **Annex Table E**.

C. Monitoring, Evaluation, and Audit

This component monitored the GOPs progress towards the agreed-upon performance indicators and implementation actions for the program. It conducted monitoring and assessment function in the following areas:

- a. *Policy Implementation Monitoring* focused on GOPs compliance with policy reform actions necessary for disbursement of program funding.
- b. *Verification of Policy Implementation* was concerned with the extent of actual, on-the-ground implementation of NRMP's policy and regulatory changes.
- c. *Policy Assessment* determined the soundness of the policy reforms for achieving the overall program purposes, i.e. whether or not the policy reforms produce the intended effects during program development.

The following are the highlights of the policy implementation monitoring and assessment results:

On Policy Action No. 1 (Land/Resource Tenure)

The significance of DAO No. 2 can gain headway through the passage of a law on ancestral land/domain that embodies the same spirit and principles underlying DAO No. 2. The irreversibility of tenure instruments for CADC and CALC and the concomitant rationalization of varied tenure instruments into a unified whole could be the direction that Policy Action 1 could take. Likewise, social experimentations on the use of other structures (e.g. cooperative) and arrangements (e.g. benefit-sharing in IFMA) that will redound to the benefits of people/communities are to be encouraged. However, a close monitoring of these structures/arrangements is crucial if indeed the gains will have to be equitably shared by the people/communities. The possibility of a return to a system where accountability is almost nil, if not totally absent, should be avoided at all cost.

On Policy Action No. 2 (Forest Charges)

The present system of collection of forest charges is beset with opportunities for shortchanging the government of its legitimate forest revenues through underreporting, and/or miscategorizing of forest products. An effective monitoring system should be developed to provide necessary and timely information for further improving the system of collecting forest charges. In the long term, the policy area should envision setting up a system of pricing or forest rent which is based on the management unit rather than on the individual products derived from the forest. This is in consonance with the present trend of managing the forest as an integrated unit or land-based management system as indicated by the thrust for the conservation and development of residual forests under NRMP.

On Policy Action No. 3 (Forest Products Industry)

Regarding Policy Action 3, it was early recognized that the exit and entry of individual firms was not the main problem with forest regulations. Rather, the prospect of a commercial logging ban and the uncertainty surrounding the forestry sector are far more significant to forest investments than barriers to entry. Other historically-determined constraints which were not directly considered within the Policy Action 3 framework which have an important bearing on improving prospects for forest products industries include two (2) broad factors: a) low timber supply due to tenurial insecurity, and b) the wood-based industries characterized by inefficiency and decreasing competitiveness in the world market. It is recommended that an overall strategy be developed that recognizes the links among forestland tenure management, investment, and industry efficiency.

On Policy Action No. 4 (Privatization)

In light of the achievement of the Performance Indicators, and in view of the lack of government participation on remaining operating assets in forest products industries, there is no further need for efforts to privatize forest products industries. Further efforts to encourage private investment and competition in the forest products industries sector should focus on improving the regulatory environment within which these industries operate. Until the forest products industries face an uncertain future, organizations and individuals will be unwilling to make substantial financial commitments in such an investment climate.

On Policy Action No. 5 (Old Growth Forests)

The development and implementation of management and protection plans for OGF needs to be accelerated. The identification and ground demarcation of OGF are futile without an honest-to-goodness protection program. A thorough and careful study of devolving the management of OGF areas to LGUs should be initiated. The provisions of the LGC should be looked into to determine the weaknesses and prevent the misuse of the LGC to the detriment of OGF. The economics of OGF management and protection should also need to be studied as inputs for future policy action.

On Policy Action No. 6 (Residual Forests)

There is a need to reexamine the entire process of generating sustainable Resource Management Plan (RMP) for residual forests since the planning procedure being established entails considerable costs. In a planning exercise where the propensity to collect information is high, there is a difficulty in maintaining a good balance between the needed biophysical and socio-economic information and holding the cost down to an effective minimum. While there seems to be an overload of socio-demographic information, the framework of integrated data analysis, the criteria/standards for generating

and evaluating management options/strategies and the relationship of the biophysical and socioeconomic components are not clearly defined. Further, the participatory approach to planning was limited to local community consultations. Hence, there was apparently no significant participation of prospective beneficiaries and actors of implementation in the formulation of plan. It is therefore recommended that database requirements and establishments be dictated largely by the management objectives which vary from one area to another rather than by a uniform pre-formatted framework for all areas. Appropriate tenurial arrangements should also be carefully studied and developed which will greatly help in defining more clearly the management objectives, the database requirements, and the framework of integrated data analysis and generation of management strategies.

On Policy Action No. 7 (TDT)

A cursory examination of the budgetary allocations for TDT activities reveals that there is more emphasis given on generative research over adaptive research and technology transfer. This is in spite of the availability of NRMP relevant technologies that are either in the adaptation stage or are already mature and ready for transfer or commercialization. Moreover, research strategies generally seem to be scientist-centered. There is hardly any attempt to involve expected clientele or beneficiaries in the research process. Scientists/researchers should be encouraged to adopt a participatory research strategy involving as much as possible the research clientele. This is one way of accelerating the rate of adoption or utilization of information and technologies generated by research.

In terms of sustainability, there is an apparent lack of concern for institutional strengthening. It is generally recognized that the present institutional mechanism at the central and local levels to sustain the effective delivery of TDT programs, particularly, technology transfer are inadequate.

On Policy Action No. 8 (Community Forestry)

Forest management regimes that are scale-sensitive as well as location-specific need to be studied. These refer to the management models to be developed from the lessons learned generated from the different pilot sites established in selected regions. For example, models might evolve for family-ventures, community-based cooperatives, and medium to large-scale corporate models. Likewise, planning should take into consideration the specificity and variations of the resource base. This means that while a general framework can be drawn to achieve sustainable forestry management, these plans can vary depending on distinctive peculiarities of the resource base.

III. IMPLEMENTATION PERFORMANCE

Design

The Natural Resources Management Program (NRMP) was originally designed as a budget support for DENR projects for the environment, i.e. to support DENR budget. It was a performance-based program. The GOP has to meet certain policy conditionalities prior to the release of Program tranches. Four (4) program tranches over life of program was set for NRMP which would be released only upon compliance of agreed upon policies. Two (2) Technical Assistance Teams were contracted by USAID to assist the GOP in meeting the performance indicators as indicated in annex table A.

Performance indicators for the first and second tranches were satisfactorily met by the GOP, which resulted to the release of grant funds. The third tranche indicators, which were initially reviewed in November 1992, indicated that a number of performance indicators have not been met. The final review was postponed until June 1993, in which USAID concluded that the GOP did not comply with the third tranche policy indicators. Specifically, it refers to the overall performance indicator for Policy Action No. 3 stated as, "Formal GOP (DENR) action taken to implement agreed upon regulatory reforms in the sector". As previously mentioned, the five areas of concern for promoting efficiency and competitiveness of forest-based industries include: a) creation of the forest industries development board, b) export-import deregulation, c) species-specific harvesting ban, d) transport deregulation, and e) area-specific ban. The first and fifth area of concern had been contingent on the passage of the Proposed Forestry Code and the proposed bills on logging ban. An Executive Order (E.O.) for the creation of the Philippine Forest Industries Board (PFIB), however, was drafted and endorsed for approval but no significant headway or progress was made due to several issues and concerns. It was noted that the draft E.O. puts too much power to the Board and creates another layer of bureaucracy inconsistent with current efforts at streamlining the government.

It was for this reason that an overall assessment of the Program approach was reviewed which eventually led to the abandonment of the tranche approach. It likewise became evident that the timetable was not sufficient to complete/comply with the performance indicators in the manner it was required. A number of policy actions require policy studies, which necessitate intensive consultation with various sectors of the society. The conduct of policy studies were continued and completed until DENR and USAID agreed to shift NRMP implementation from budget support program to project type; expand Program coverage to include coastal resources component; and extend Program completion date from 1995 to 2002. These agreements were contained in a Joint Implementation Letter No. 1 (JPIL), which was signed in 25 February 1994. The change/modifications avoided the threat of

deobligation and enable the GOP to avail and reprogram the remaining US\$39 million grant through re-programming.

On September 25, 1995, amendment to the Agreement was effected. The amendment likewise indicated the new USAID programming system for obligation of funds by strategic objective (SO). It followed the SO format by indicating target goals and objectives without specifying projects but rather activities. This provided for the integration of all environmental activities under one Program to wit: (i) expansion of the on-going forestry resources component (an original component of NRMP), (ii) an originally stand-alone on-going industrial environment management project and the new component- Community-based Coastal Resources component.

Organization and Management

The DENR Special Order No. 84 Series of 1990 defined the organizational and management structure for the Natural Resources Management Program (NRMP). The Program Support Office (PSO) was established to provide the overall coordination of Program activities both at the central and field level offices. It likewise provided the link between the technical assistance teams and the implementing organic units of the Department of Environment and Natural Resources. It was responsible for the day-to-day operations of the Program.

The inter-agency Steering Committee provided the over-all policy direction and was responsible for the disbursement aspects of the policy reform component. An inter-agency Technical Coordinating Committee (TCC) was also created which coordinated and provided the necessary technical inputs to Program implementation. It was likewise responsible for the review of the progress of policy action implementation.

Two (2) Technical Assistance Teams supported/ assisted the implementation of the Program. These were the Development Alternatives, Inc. (DAI) for the policy implementation and the Louis Berger International, Inc. (LBII) for the policy studies. The Winrock International, Inc. undertook monitoring of the progress of policy actions/indicators.

The technical assistance teams and the PSO were housed in one building, at the DENR Annex Building. This provided an open and effective coordination between the technical assistance teams and the concerned DENR units. DENR designated counterpart personnel within the concerned units who served as the focal persons. The Policy Studies Office was the main counterpart office of LBII who was responsible for the policy studies component. The Forest Management Bureau (FMB) served as DAI's counterpart who was responsible for the policy implementation component. The consultants worked with and alongside DENR staff members both in

policy studies and implementation. Both are involved in all processes of Program implementation. The DENR personnel spearheaded among others, the conduct of policy studies, training, identification of community project sites, and evaluation of NGOs, with the consultants providing the necessary logistical and technical support.

Some of the policy implementation activities were contracted out to non-government organizations (NGOs) with DENR and technical assistance teams providing direction.

The budget allocated for the TAT's office rental was instead used to repair and improve the DENR Annex Building. Power generator, telephone landlines, air-and conditioning units were installed. This arrangement was advantageous on the part of the GOP as it was able to benefit directly from the proceeds of the grant funds.

Cost/Financing and Disbursement

NRMP is basically a technical assistance Program where grant funds are directly administered by the technical assistance teams contracted by USAID to assist the GOP in the implementation of the Program.

The original total project cost amounts to \$ 158.4 million, broken down as follows:

Grant	:	US\$ 125.0 million
GOP	:	33.4 million

The TAT contracts as stated included fund allocations to carry the various activities of the Program. It directly administered grant funds. Disbursements were based on the approved Life of Program (LOP) Work Plan, which includes consultants and local staff salaries, in-country training, seminars, workshops and overseas training, workshops and conferences, research and development activities and commodities.

Table 1: NRMP'S Original Financial Plan

Element/Activity	Life of Program Amount US\$ million	GOP Contribution US\$ million
A. Policy Reform	75.00	26.749
B. Resources Protection	25.00	
C. Support Services	20.00	6.651
D. Monitoring, Evaluation & Audit	5.00	
TOTAL	125.00	33.40

Table 2: Summary of USAID Obligations to NRMP

Components	Project Agreement LOP Amount (9-28-90) US\$M	JPIL # 1 (2-25-94) Obligations US\$M	Amendment No.4 (9-30-94) Obligations US\$M	Amendment No. 5 (9-29-95) Obligations US\$M
A. Policy Reform	75.00	35.00	74.00	35.00
B. Resources Protection	25.00	25.00	18.00	17.980
C. Support Services	<u>20.00</u>	<u>53.100</u>	<u>21.600</u>	<u>63.776</u>
Forest Resources Mgt.	20.00	32.100	21.60	34.608
Industrial Environment Mgt.				8.186
Coastal Resources Mgt.		21.00		21.000
D. Monitoring, Evaluation and Audit	5.000	3.895	3.395	4.907
TOTAL	125.000	116.995	116.995	121.663

Table 2 showed realignment of funds among the components. The realignment increased the amount allocated to the support services component from US\$ 20 million to US\$ 63.776 million. The amount allocated for each of the sub-activities of the support services component to wit; forest resources management, industrial, and the coastal resources was also indicated. The amount earmarked for each of the sub-activity includes the contract with DAI and LBII and other entities which supported the Program implementation. Said table also indicated the decrease in the original amount allocated to other components such as policy reform, resources protection, and monitoring, evaluation, and audit.

The GOP counterpart contribution amounting to US\$33.4 million is both in-kind and in-cash. In-cash contribution consists of salaries of project personnel, maintenance and operating expenses, and capital outlay for Program implementation. In kind-contribution included office space, percentage of time of personnel who have worked part and full-time with the project, equipment, and vehicles.

Details of GOP's yearly budgetary allocation and financial expenditures including list of procured commodities by GOP and Contractor are indicated in **Annex Tables F, G and G.1**, respectively.

Engagement of Consultants

Preparatory activities for project implementation were handled by the USAID-Desk staff of the DENR-Foreign Assisted and Special Projects (FASPO) and the USAID personnel. This included the engagement of Technical Assistance Teams (TATs), which underwent the tedious USAID procurement process. The Terms of Reference (TORs) for the TATs were a joint collaboration between partner agencies, the DENR and USAID. Consultations with the concerned DENR units

were likewise undertaken in order to ensure that concerns of the various units are taken into consideration. The evaluation of the proposals from about three (3) consulting firms was done by an Evaluation Team composed of three (3) USAID officials and two (2) DENR officials. The selection criteria were drawn up by the Evaluation Team. Three (3) consulting firms were chosen, two (2) of which, the Development Alternatives, Inc. (DAI) and the Louis Berger International Inc. (DAI) assisted the Government of the Philippines (GOP) comply with the agreed-upon policy conditionalities, while Winrock International monitored the GOP's compliance. DAI was responsible for the policy implementation and LBII for policy studies, both are subcomponents of the Support Services. DAI and LBII were finally mobilized in July 1991, after undergoing about four months of procurement process.

Majority of the consultants engaged in the Program implementation on long-term stints are local consultants. Foreign consultants were mobilized on short-term basis. Only the Chiefs of Parties for both firms are expatriates.

The World Wildlife Fund (WWF) was likewise commissioned by USAID through a cooperative agreement signed on April 22, 1991 for the resources protection component. WWF was responsible for the initial swap of US\$5 million and the establishment of the Foundation for Philippine Environment (FPE).

The TAT was responsible for the procurement of various commodities for the project. Likewise, training to enhance capabilities of selected DENR personnel on policy analysis and formulation, conflict resolution, community forestry, and other technical training was provided.

Generally, the TATs played a major role in the successful implementation of the Program. It was just unfortunate that some policy actions were not met due to factors beyond the capability of the implementing agency and the TAT.

Performance of Funding, Executing, and Implementing agencies

The Department of Environment and Natural Resources (DENR) was the designated lead implementing agency for NRMP. Collaborating agencies included Central Bank of the Philippines (CB), Department of Finance (DOF), National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM), Department of Agriculture (DA), Department of Agrarian Reform (DAR), Department of Science and Technology (DOST), Department of Trade and Industry (DTI), non-government organizations (NGOs) and the private sectors. These agencies were members of the Steering Committee which provided over-all program direction.

DOF, DBM and the Central Bank of the Philippines were responsible for the disbursement aspects of the policy reform component. DOF is likewise

responsible for the “debt for nature swap” mechanism of the resources protection component. Said agencies have effectively complied with their assigned tasks.

NRMP is the first type of technical grant assistance that DENR has received from a funding agency. The grant is directly managed by USAID and the assistance received by the DENR was in the form of training, commodities and consultants. With this type of assistance, the GOP was spared from the tedious tasks and/or processes of putting the grant in the government’s coffers. Grant funds were easily accessed as it was not dependent on Congress’ approval. It has, however, some disadvantages as GOP did not have direct control over the fund disbursement. There were some instances that funds were committed by USAID without GOP’s prior concurrence. Consequently, this has caused conflicts between the GOP and the TAT. Said conflict was addressed through joint planning sessions by DENR, USAID, and the TAT where priorities and Program activities as well as directions were discussed and/or identified. The DENR’s endorsement of the TAT’s output also became a prerequisite for USAID’s payment or disbursement of funds to the Contractors.

The DENR as the lead implementing agency was responsible for the accomplishments of policy actions and implementation of other Program activities. It was able to satisfactorily comply with the conditions for the first and second tranches, however, there were difficulties encountered in meeting the third tranche policy actions as these were beyond the jurisdiction of the executing agency.

USAID, as the financing agency has been very supportive of the implementation of the Program. One manifestation of its support was its continuous and close collaborative effort to immediately address the implementation concerns brought about by the contractual arrangement between USAID and the TAT.

Compliance with Grant Covenants

As stated in the previous section, Program tranches were released upon GOP’s compliance on agreed upon policy actions and conditions. Such conditions precedent to disbursement are enumerated below. While the GOP did not have difficulty in meeting some of the conditions, it did not satisfactorily comply with the policy conditionalities for third tranche.

Conditions Precedent to Disbursement

1. A written opinion of Counsel acceptable to A.I.D. that Agreement has been duly authorized and/or ratified by, and execute in behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee;
2. A written statement setting forth the names and titles of persons holding or acting in the Office of the Grantee and of any additional representative(s),

and representing the named person(s) have the authority to act as the representative (s) of the Grantee together with specimen signature of each person certified as to its authenticity;

3. Evidence of performance in meeting the performance indicators for the performance-based disbursement as agreed upon with A.I.D.
4. implementation plan specifying (i) the responsibilities and interrelationships of the entities involved in the receipt and disbursement of U.S. dollar funds; (ii) schedule of payments proposed to be made by the Grantee using U.S. dollars provided in the tranche release and any interest earned thereon, identifying payees, amounts and due dates of the loans, and (iii) the type of documentation to be obtained and maintained by or on behalf of the Grantee evidencing the use of U.S. dollars disbursed from funds provided through the program.
5. A statement of the name, branch and US Federal Reserve Bank branch of each bank with which the US dollars to be disbursed will be deposited with the respective amount of US dollars to be deposited in each account;
6. An implementation plan specifying (i) the responsibilities and interrelationships of the entities involved in the receipt and disbursements of funds held in NRMP Peso Account (ii) budget categories and eligible programs within those budget categories against which disbursements will be reported for purposes of this Agreement, and (iii) schedule for disbursement of funds from said Account;
7. A written agreement on modifications, as appropriate, to the policy implementation matrix which includes the policy objectives and performance benchmarks for the ensuing performance-based disbursements
8. A written evidence that the payments made are in accordance with implementation plan;
9. A documentation evidencing that the Grantee has established separate peso account to which peso deposits shall be made equivalent to the dollars transferred to the Grantee as performance- based disbursements for policy reform, which shall be referred to as the "NRMP Peso Special Account".
10. A written evidence of the Grantee's undertaking to take the necessary steps to allow AID to provide funds to non-governmental organizations for debt-for-environment swaps.

IV. Conclusion and Lessons Learned

Experience in the implementation of the various NRMP's policy actions suggested that sharpening the focus of NRMP and providing a more unified and cohesive implementation strategy was a necessary condition in achieving Program impacts. For a more integrated Program implementation, it was redesigned that gave emphasis on the following areas: focus of the program; definition of goals and objectives; identification of policy actions and how they interrelate with one another; specification of targets and outputs; implementation strategy; and provision of a feedback mechanism.

Evidently, understanding the linkages among the various policy actions and their synergy, and consequently, implementing them as a set of reinforcing and well-coordinated policy actions will enable the Program to have a more positive and directed impact. A well-coordinated implementation requires a common understanding of the expectations from each work element/task and how they interrelate with each other among implementers. The different teams involved in the implementation of the various tasks/work of the Program could be more effective in leading the program towards its goals and objectives if linkages and interrelationships of the policy actions being pursued are well appreciated.

Among the anticipated impacts of the Program are: a) development of a system for the sustained management of 3.4 million hectares of second-growth forests; b) greater private sector investment and international competitiveness of wood processing industries; c) privatization of inefficient wood and wood processing parastatals; and d) market-determined pricing of natural resources.

V. Transition from NRMP Phase 1 to Phase 2

The GOP's non-compliance with some of the policy actions led to an overall assessment of the program approach by USAID and NEDA. It was also timely that USAID then was re-engineering its operations systems, thus, a shift from project agreements (Pro-Ags) to Strategic Objectives Agreements (SOAg). The USAID SOAg operation system was guided by four (4) core values, to wit: customer focus, results oriented, empowerment and accountability. Each SO specifies among other things, illustrative activities and their resources requirement, and/ or specific activities already planned for implementation with their cost requirement, to be undertaken towards achieving a set of targets. These resulted to the abandonment of the tranche approach and shift from program mode to project type, expanded program coverage to include coastal resources component, and extended program completion date from 1995 to 2002. These agreements were contained in a Joint Implementation Letter No. 1 (JPIL), which was signed in 25 February 1994. The change/modifications likewise avoided the threat of deobligation

and enable the GOP to avail and reprogram the remaining US\$39 million grant through re-programming.

On September 25, 1995, abandonment to the Agreement was officially effected with Grant Agreement Amendment No. 5. The amendment indicated the new USAID programming system for obligation of funds by strategic objectives (SO). It followed the SO format by indicating target goals and objectives without specifying projects but rather activities. This provided for the integration of all environmental activities under one Program to wit: (i) expansion of the on-going forestry resources component (an original component of NRMP), (ii) an originally stand-alone on-going industrial environment management project and the new component – Community-based Coastal resources component.

The amended/expanded program is called the NRMP Phase II which is guided by its long-term objective of promoting ecologically-sound economic growth through the following subprojects:

a. Participatory management of Residual Forests

The approach shall empower communities to undertake the management of lands upon which their livelihood depends. It is expected that about 500,000 hectares of residual forests would be sustainably managed through tenurial instruments like (i) community-based forest management agreements (CBFMA), (ii) Certificate of Ancestral Domain, (iii) Industrial Forest Management Agreements (IFMA), and (iv) other forest management schemes to be developed. Under the expanded NRMP, the project will continue to assist the DENR in carrying out activities supportive of the need to grant both the rights and responsibility to communities to manage forestlands and resources. Seventy five percent of the assistance was directed to assist communities, LGUs, NGOs and private corporations in undertaking viable forest management practices.

b. Community-Based Coastal Resources Management (CB-CRM)

This shall address the need to develop site-specific participatory resource management systems that will reduce coastal degradation and adjust harvest efforts to sustainable levels. The key activities under this subproject are (i) development of site-specific CB-CRM process framework (ii) strategic expansion, (iii) micro-enterprise development, (iv) policy implementation and policy dialogue, (v) special activities and support services (vi) information, education and communication, and (vii) monitoring, evaluation and audit. It is integrated, participatory and holistic approach for community co-management focusing on community self-help and the use of basic democratic processes for sustainable and flexible coastal resources management.

c. Industrial Pollution Abatement (Industrial Initiative for a Sustainable Environment (IISE))

The activities of the subproject includes (i) the conduct of 75 pollution management appraisals for targeted industries, (ii) conduct of policy study on the regulatory gaps using market-based incentives, (iii) finalization of guidelines for the implementation of environmental impact statements for industrial development in the Philippines, and (iv) training of at least 7,000 professionals in various aspects of environmental management.