

Done 1/21/76

2/34 X

A.I.D. Loan No. 492-T- 041 4920281 (3)
90-AAA-563-118p

CAPITAL ASSISTANCE LOAN AUTHORIZATION

Provided from: Food and Nutrition

(Philippines: Bicol River Basin Secondary
and Feeder Roads Project Loan)

Pursuant to the authority vested in me as Administrator, Agency for International Development ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, (the "Act") and the Delegations of Authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter I, Section 103 and Chapter 2, Title I, the Development Loan Fund, to the Government of the Republic of the Philippines ("Borrower"), acting through the National Economic and Development Authority, of not to exceed Ten Million Dollars (\$10,000,000), in order to assist in linking both existing and potential areas of high agricultural production to market/population centers, within the project area of the Bicol River Basin with an economical secondary and feeder road system to (a) increase agricultural production (b) induce employment (c) increase commercial complementarities and (d) promote social development, all contributing to the goal of bringing about a self-sustaining rise in income levels of the rural poor and increasing their perceived quality of life. Proceeds of this loan will be used to finance the United States Dollar and certain local currency costs of goods and services for the improvement and construction of secondary and feeder roads and bridges in the project area. The loan shall be subject to the following terms and conditions:

A. Interest Rate and Terms of Repayment

Borrower shall repay the loan to A.I.D. in United States Dollars within forty (40) years from the date of first disbursement under the loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in United States Dollars interest from the date of first disbursement at the rate of (a) two percent (2%) per annum during the grace period, and (b) three percent (3%) per annum thereafter on the outstanding disbursed balance of the loan and on any due and unpaid interest accrued thereon.

B. Other Terms and Conditions

1. Unless A.I.D. otherwise agrees in writing,

12-31-75

- a. Goods and services financed under the loan shall have their source and origin in the Philippines or in countries included in A.I.D. Geographic Code 941.
- b. The loan agreement shall provide that prior to the first disbursement of loan proceeds, the Borrower shall submit, or cause to be submitted, the following in form and substance satisfactory to A.I.D.:
 - (1) A copy of Executive Order 412 duly amended to include the Provincial Government of Albay as a member of the Bicol River Basin Council, and designating the geographic areas of Albay Province within the Bicol River Basin watershed as eligible for assistance under the BRBC Program.
 - (2) A copy of the Philippine Government order establishing a composite Project Management Office ("PMO"), with authorities and responsibilities to enable the PMO to effectively carry out assigned functions, including necessary delegations of authority from the Department of Public Highways ("DPH") (the implementing agency) through the DPH regional office, and with the concurrence of the Bicol River Basin Council ("BRBC") (the coordinating agency) both represented within the PMO to (a) enter into contracts and (b) make financial payments for work accomplished.
 - (3) A plan for the implementation of the project prepared by the PMO on behalf of the DPH and BRBC including a projection of funds available to finance the various elements of the project.
 - (4) A plan for socio-economic and construction evaluation of the project, the former by BRBC contract, the latter involving periodic review of the project by an evaluation team consisting of inter alia one representative of BRBC, NEDA, and A.I.D., and an undertaking by the Borrower that it will cause periodic recommendations of the project evaluation team to be implemented in a timely and effective manner.
 - (5) Written assurances from the Borrower that all roads and bridges improved or constructed under this project that are classified as Provincial Roads will be eligible for annual maintenance funds as specified

in Presidential Decrees 917 and 320 and that such funds will be provided in accordance with such Presidential Decrees.

- (6) Written assurances from the Borrower that the Department of Public Highways will maintain roads and bridges improved or constructed under this project within boundaries of the chartered cities of Naga and Iriga and that the required financial contribution shall be made by the cities, respectively, for this maintenance.
- c. The loan agreement shall contain the following special covenants by the Borrower:
- (1) The Borrower, through the Department of Agrarian Reform, will, within twenty-four months from the signing of the loan agreement, issue all Land Transfer Certificates and secure written registered leasehold contracts for 80% of farmers eligible in the Dicol Basin under Republic Act 3844, Presidential Decree 27 and subsequent implementing instructions (rice and corn land only).
 - (2) BRBC will assure that project evaluation procedures in form and substance satisfactory to A.I.D. are implemented.
 - (3) The Borrower will assure that sufficient funds are made available to the PMO through the BRBC Special Account fund to assure timely and orderly implementation of the project.
 - (4) The Borrower shall assure that the provincial governments of Albay and Camarines Sur introduce the necessary policy and management reforms to effectively expand and operate their equipment pool operations to adequately maintain all provincial classed roads.
 - (5) The Borrower shall assure that the provincial governments of Albay and Camarines Sur as well as the chartered city governments of Naga and Iriga allocate adequate budgets to meet their respective shares of annual road maintenance costs.
 - (6) The Borrower shall assure that the Board of Transportation and local enforcement agencies regulate and enforce established transport rates for commercial

vehicles in the Bicol River Basin area to enable equitable benefits from road improvements to flow to the rural poor and that vehicle maximum load regulations are enforced to reduce road deterioration and minimize maintenance costs.

- The loan agreement shall include such other terms and conditions as A.I.D. may deem advisable.

John E. Murphy
DA/AID

12/31/75
Date

CLEARANCES:

Asia/CCD:Frank Collins, Jr.	<u>for Jim</u>	Date	<u>12/24/75</u>
Asia/EAA:Vance L. Elliott	<u>for For</u>	Date	<u>12-30-75</u>
Asia/DP:William Lefes	<u>for S. Lefes</u>	Date	<u>12/24/75</u>
GC/Asia:Herbert Morris	<u>for</u>	Date	<u>12/30/75</u>
SER/ENGR:Merten Vogel	<u>for</u>	Date	<u>12/29/75</u>
PPC/DPRE:Arthur Handley	<u>for</u>	Date	<u>12/31/75</u>
SER/FM:Thomas R. Blacka	<u>for</u>	Date	<u>12/20/75</u>
Asia/AA:Arthur Z. Gardiner, Jr.	<u>for AZG</u>	Date	<u>12/31/75</u>
Asia/TD:T.C.Clark	<u>for Clark</u>	Date	<u>12/29/75</u>
GC:CGladson	<u>for</u>	Date	<u>12/31/75</u>

ACTION MEMORANDUM FOR THE ADMINISTRATOR

DEC 31 1975

~~PPC/DPR/E~~
file

THUR: ES

FROM: AA/PPC, Philip B. Alexander Shaker

2136

SUBJECT: Philippines/Bicol Secondary and Feeder Roads Project - \$10,000,000

Problem: Because this proposed loan is \$10.0 million, your signature is required on the attached loan authorization.

Discussion: The Government of the Philippines' (GOP) Four Year Development Plan for 1974-1977 stresses the need for maximum feasible economic growth, more equitable distribution of income and wealth, and promotion of social development. Accordingly, the plan assigns first priority to projects that are directly supportive of food production and distribution efforts, and specifically identifies transportation as a vital link for achievement of established goals for rural development. The GOP approach is fully compatible with A.I.D.'s development strategy in the Philippines to promote the welfare of the rural poor and overcome problems associated with rural poverty through multi-project activities.

The Bicol River Basin Secondary and Feeder Roads Project has two inter-related components. The first involves the rehabilitation and improvement of 200 kilometers (kms.) of secondary road, the construction of 254 kms. of tertiary roads (hereafter called feeder roads) and the improvement of construction of 1,073 linear meters (lm.) of bridges. This will be accomplished by fourteen separate subprojects implemented by the GOP through local contracts over a three-year construction period. For its part under this component of the project, A.I.D. will provide about \$6.8 million in foreign exchange to cover approximately one-half of the local currency costs (A&E, construction supervision and construction) through a Special Letter of Credit (SLC). The proceeds of the latter will be drawn by the GOP through fixed amount reimbursement procedures.

The second component of the Bicol Roads Project will provide maintenance equipment in the amount of \$3 million and U.S. consultant contracts costing about \$150,000, to strengthen the capability of the Camarines Sur and Albay Provincial Engineers' Offices (PEO's) in road maintenance.

This project meets the criteria of Section 103 of the Foreign Assistance Act (The Food and Nutrition Category) since it will stimulate agricultural production, induce employment and promote welfare of poor farmers.

The following additional criteria were used in appraising the project:

(A) Institutional Feasibility

The Government of the Republic of the Philippines will be the Borrower, acting through the National Economic and Development Authority (NEDA), who will receive the \$12 million provided by the United States under this project. The Department of Public Highways (DPH) will be the implementing agency working principally through their Region V Office located in the local DPW and the Bicol River Basin Council (BRBC), a cabinet-level inter-agency coordinating body with its action office located in the local DPW, will organize a Project Management Office (PMO) which will be delegated authority by DPH to carry out actual administration, contracting and management of the Project in the Bicol River Basin. This arrangement will allow policy and financial review and controls to be exercised at the national level with the actual management of the project decentralized to the operational field level. (See page 5 of the PP).

(B) Technical

The technical analysis of the proposed secondary and feeder roads and bridge structures, based primarily on the BRBC farm-to-market feasibility report and subsequent modifications, indicates that acceptable engineering standards, designs and methods have been used in project planning. All engineering plans, designs, contracts and final acceptance of contract work will be subject to USAID approval to qualify local currency costs for shared reimbursement. Material unit cost estimates used to calculate costs are reasonable and include a realistic inflation rate. Qualified engineering and construction contractors are available. (See pages 33 to 34 of the PP).

(C) Economic and Financial

To generate the planned benefits over the 15-year economic life of the project, an investment program of \$17,205,000 (P175,035,000) will be required over a four-year project design and construction period. The Direct Rate of Return (DRR) of the package of 14 road subprojects was calculated at 25.5 percent and the B/C ratio using a 15 percent discount rate was 1.21. The Social Rate of Return (SRR), covering both direct as well as the associated benefit stream, was calculated at 20.5 percent. If cost estimates increased by 20 percent coupled by the same proportionate decrease in expected benefits, the package was still economically viable (DRR = 15.5% and SRR = 18.2%). The consensus of three separate A.I.B. consultant teams who independently calculated or reviewed the economic feasibility at different stages was that economic assumptions used were conservatively based. Further, that the project as proposed was economically feasible and investment recommended. (See pages 25 to 32 of the PP).

BLURRED COPY

As proposed, A.I.D. would provide a loan of \$10 million which is 58 percent of the total project investment cost including foreign exchange for direct procurement of maintenance equipment and U.S. contract consultancy. The contribution of A.I.D. for local currency financing is estimated at \$6,850,000 (P52,125,000) which is 50 percent of the total estimated A&E design, construction and construction supervision costs.

An analysis of financial requirements and arrangements indicates that the GOP is prepared to provide all necessary funding including their own national grant contribution for local currency costs over the four-year project. A.I.D. fixed amount reimbursement will be provided for completed subprojects or usable components up to 50 percent of estimated costs. (For programming purposes, the Special Letter(s) of Credit under the loan generates A.I.D. local currency for the project but actual disbursements of peso funds by the national government representing A.I.D.'s contribution will be after the fact in amounts not necessarily related to the project). Overall, the GOP will fund 42 percent of total project costs and an estimated 50 percent or more of the total local currency costs. A critical condition of the loan is assurances that annual road maintenance will be funded and, in fact, carried out. (See pages 55 to 66 of the PP).

(D) Social Soundness

The social analysis indicates that the roads can contribute to the equitable distribution of income and the future stream of other economic and social benefits. The rural poor majority stand to receive an equitable share of the benefits. This will require continued enforcement of transportation tariff rates which can reasonably be expected to be performed, but this in turn is directly related to improved and well maintained roads. Road construction will provide significant employment during the construction phase (3,000 man-years) and help induce additional employment opportunities during the 15-year economic life of the project. Improved roads should accelerate the trend in increased mobility and opportunities for women, as much or even more than men. The proposed evaluation plan focuses on the measurement of benefits to the different income levels and addresses the key institutional development aspect of provincial road maintenance. (See pages 67 of the PP).

Two areas of special concern were highlighted during the final stages of project preparation and review. The first of these relates to assurances that the GOP's land reform program in the project area would be effectively implemented in conjunction with the project. The objective is to insure that benefits from the increased production

within the project area would accrue to the existing tenant farmers. Correspondingly, the Borrower has agreed that the loan agreement will include a covenant to the effect that land transfer certificates or registered leasehold contracts will be issued for over 80 percent of the tenant farmers within 24 months of the signing of the loan agreement. (See authorization paragraph c(1)).

The second area of concern relates to assurances that a program be effected for both reevaluation of land within the benefited areas and initiation of a related program of improved tax collection in the two benefited provinces. e.g., Albay and Camerines Sur. Over the long run this program is expected to enhance the capability of these provinces to undertake development programs with their own resources and assure budget availabilities for the maintenance thereof.

The land valuation and tax improvement program is under discussion between USAID and the GOP and will be finalized during the loan agreement negotiations. Similar programs have been undertaken in other provinces under the A.I.D. assisted Provincial Development Assistance Program.

The loan has been reviewed and cleared by all A.I.D. offices concerned and has the concurrence of the Interagency Development Loan Committee. The loan was included in the FY 1976 Congressional Presentation on page 58.

Recommendation: That you sign the attached loan authorization

Clearances:

GC:CLGladson	_____	Date	_____
PPC/RB:GCauvin	_____	Date	_____
AA/LEG:DNeill	_____	Date	_____
AA/ASIA:AZGardiner, Jr.	_____	Date	_____
ASIA/CCD:FCollins, Jr. (Draft)	_____	Date	12/29/75
ASIA/CCD/EA:ARLove	<i>in L</i>	Date	12/29/75
ASIA/EAA:VLElliott	_____	Date	_____
ASIA/TD:JFoti	(Draft)	Date	12/29/75
ASIA/CCD:JRMcCabe	_____	Date	_____
PPC/DPRE/PR:JShannon	_____	Date	_____
ASIA/EAA/P:LKnutson	_____	Date	_____
ASIA/DP:ARoan	_____	Date	_____
GC/ASIA:HMorris	_____	Date	_____

Attachments:

Tab A - Loan Authorization
Tab B - Project Paper (AID-DLC/P-2136)

Drafted by: ASIA/CCD/EA: E. L. K. 12/29/75