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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

66p

Capital Assistance Paper

Proposal and Recommendations
For the Review of the
Development Loan Committee

PHILIPPINES - Third Consulting Services Loan

492-22-250-282

AID-DLC/P-2141

UNCLASSIFIED
AID-DLC/P-2141
December 22, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Philippines - Third Consulting Services Loan

Attached for your review are the recommendations for authorization of a loan to the Government of the Republic of the Philippines in an amount not to exceed Two Million Dollars (\$2,000,000) to assist in financing the foreign exchange costs of service, equipment and materials necessary for the performance of economic and technical pre-feasibility and feasibility studies, sectoral studies, market studies and other capital project related activities in the Philippines.

No meeting is scheduled for this proposal. However, please advise us of your concurrence or objection as early as possible, but in no event later than close of business on Monday, December 29, 1975. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program Review

Attachments:

Summary & Recommendations
Project Analysis
Annexes A-H

PHILIPPINES: Third Consulting Services Loan

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Philippines - Third Consulting Services Loan

I. Summary and Recommendations

A. Project Paper Facesheet

B. Recommendations

1. Loan and terms

A loan is requested to finance the foreign exchange costs of the Third Consulting Services loan as described below.

Amount: \$2.0 million

Maturity: Forty (40) years including a ten (10) year grace period

Interest: Two percent per annum during the grace period and three percent per annum thereafter.

Currency: Interest and principal repayable in U.S. dollars.

II. Borrower and Executing Agency

The borrower is the Republic of the Philippines. The executing agency for the overall loan is the National Economic and Development Authority (NEDA) of the GOP. Implementation of individual studies and/or consulting services contracts will be undertaken in conjunction with the individual benefiting agencies, government corporations, autonomous planning bodies (Bicol River Basin Council) etc.

III. GOP Contribution

The GOP will finance all local currency costs of studies and consulting services contracts financed under the loan. A firm budget for these requirements has not yet been determined; but the peso costs are estimated at ₱14.0 million (\$2.0 U.S. equivalent).

C. Description of the Project

The proceeds of the loan will be used to finance the foreign exchange costs of prefeasibility and feasibility studies, sectoral studies, market studies and consulting services, including engineering services directly related to the preparation and implementation of development projects in the Philippines. The consulting assistance financed under the loan will assist the GOP to achieve more effective management of its limited economic resources. Activities financed under the loan will be developed in conjunction with the GOP's 4 year Economic Development Plan (1974-1977). The primary emphasis of services financed under this loan will be directed to projects focused on agricultural and rural development where prospects exist for directly or indirectly benefiting the rural poor. At least 50% of the loan will be utilized for activities in the area of Food and Nutrition consistent with the provision of section 103 of the FAA.

Overall responsibility for the execution of the project will rest with the National Economic and Development Authority (NEDA). NEDA (or its predecessor agency the National Economic Council, NEC) has been the executing agency for two prior feasibility loans (Loan 492-H-023 authorized June 21, 1967 and Loan 492-H-030 authorized May 18, 1973). NEDA is considered to be an effective and experienced organization for the purposes of implementing this loan and is fully familiar with AID's procedures related to consulting assistance.

Implementation responsibility for individual feasibility studies will, of course, rest with the individual government agencies, corporations, planning bodies etc. Competence in developing and implementing studies within individual agencies varies depending on their prior experience in utilizing foreign consultants. Developing improved institutional competence in utilizing foreign consulting services is one of the projected benefits of the proposed loan. Selection and implementation of the consulting services contracts will also be keyed to efforts by the GOP and USAID to insure that reasonable prospects exist for follow-on financing of capital projects developed by eligible feasibility studies and follow-on specific feasibility studies developed by planning studies financed under the loan. Experience with follow-on financing of activities funded under the prior two AID feasibility loans has been excellent. (See Annex A

The end of project status would, therefore, include the following conditions:

1. Completion of an indeterminate number of planning studies, feasibility studies, engineering design activities and individual specific consulting assistance efforts.
2. Existence of firm GOP plans and budgets for implementation of plans or projects developed by loan financed studies and
3. AID, GOP, and/or other donor commitments for the financing of studies and projects developed under this loan.

D. Summary Findings

The project committee concludes that the loan proposed by this Project Paper is justified and warrants approval. The proposed activity is consistent with AID's overall strategy in the Philippines and with AID's overall objectives. Adequate institutional capability exists to insure effective and timely implementation of the proposed loan. The illustrative list of projects currently under consideration for financing is based on sufficient existing or ongoing analysis to insure that a major portion will warrant implementation. The illustrative list also indicates a primary focus of the proposed studies and area of emphasis is generally consistent both with the GOP's overall planning goals within its four year plan and AID's existing congressional mandate.

Other sources of financing for the proposed studies do not appear available at this time and all statutory requirements have been met (See Annex F).

Authorization of the loan is correspondingly recommended on terms and conditions set forth in the Draft Loan Authorization (See Annex G).

E. Project Issues

Issues relating to both the adequacy of the potential project list and the impact on intended beneficiaries were highlighted at the Asia Bureau review and approval of the project paper. Resulting revisions to the text of the paper are now considered adequate to address these concerns.

No additional issues are presented by the loan proposal.

USAID PROJECT COMMITTEE

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Part II - Project Background and Detailed Description

Background

The basic justification for the proposed loan derives from the improved development performance of the Philippines in recent years. Annex I highlights recent economic performance and the GOP's target plans for a continued growth rate of GNP of 7%. Improved economic performance by the GOP since the formation of the consultative group in 1970 has been encouraging. The increased availabilities of external capital has marked both the GOP's improved ability to utilize increased aid levels and the donors increased recognition of this fact.

As the GOP pushes for higher sustained growth rates, the need for accelerated project development and planning studies has continued to be acute. Professional services of a qualified and experienced nature do not yet exist in the Philippines to fully meet planning and study needs. The proposed loan, by definition, focuses on meeting a portion of the requirement.

In addition to the increased need for general project development assistance to support overall growth, the GOP and AID agree on the need to focus an increasing portion of the GOP's development efforts on programs oriented to the needs of the rural poor. As further discussed in Part III of this Project Paper, the Philippines continues to be a classical LDC "dual" economy with the high growth - high return "modern" sector receiving a disproportionate amount of financing and attention in the past.

AID's bilateral program in the Philippines has, since the middle 1960's, been attempting to expand the GOP's efforts to focus increasingly on programs oriented to a gradual transformation of the "traditional" sector with its eventual integration into the modern economy.

AID has partially relied on the use of two feasibility study loans, \$2.0 million in 1967 and \$2.0 million in 1973, as a tool to shape the GOP's programs and concurrently develop specific activities that would result in development programs suitable for AID participation. The rapidly maturing Rural Electrification and Provincial Water Programs owe their successes, to a great extent, to the effective use of prior feasibility study loans by USAID and the GOP.

It is the success of the earlier loans, plus the continuing overall demand for project and planning assistance that resulted in the GOP request and AID concurrence as to the priority of a third loan in this area.

In the context of AID's own priorities, this third loan provides an opportunity to further focus the development efforts of the GOP planning and implementing bodies toward areas more consistent with AID's new mandates than many competing projects developed by the GOP in conjunction with other donors.

These loans are also by their nature a good example of collaborative development between AID and the GOP.

It is in context of this background that the third loan is strongly recommended.

History of Prior Loans

In September 1967, A.I.D. and the GOP signed their first Feasibility Studies Loan (No. 492-H-023) for \$2 million.^{1/} Annex A to this paper contains a list of the studies financed under that loan and a statement of the status and/or disposition of those studies. Generally speaking the utilization rate of the first loan was decidedly slower than desirable. Delays were experienced at every stage from selection of studies to negotiating contracts. Nonetheless, the benefits derived and likely-to-be derived from the studies financed should make an important contribution to development activities in the Philippines. Of the eight studies undertaken, two studies completed in the electric power sector (for a combined cost of \$398,038) have resulted in foreign loans amounting to \$103.4 million to finance projects in that sector. As a result of the pre-feasibility and feasibility study of provincial water systems (combined cost of \$424,000), A.I.D. made a loan of \$15 million to assist in financing both the development of a needed institutional capacity and the rehabilitation and expansion of up to five systems. The three studies conducted in the area of water resource development give good promise of resulting in projects amounting to \$445 million.

A.I.D. made a Second Feasibility Studies Loan to the Philippines for \$2 million (No. 492-H-030) in June 1973. The status of studies financed to date under that loan are also given in Annex A. Performance under Loan 492-H-030 has been entirely satisfactory and available funds will be totally committed by the December 31, 1975 TDDA. Indications are, even at this early date, benefits to be derived from the Second Feasibility Studies Loan will be substantial in the areas effected.

A large portion of the second loan has been allocated to various studies related to further expansion of the rapidly growing provincial water program. There already are firm indications that IBRD and the ADB will entertain major capital assistance requests for municipal water systems developed by these studies. This early entry of IBRD and ADB into this sector will provide capital for the larger secondary cities in the Philippines. This in turn will allow AID to shift its focus to the needs of the smaller municipalities thereby broadening the coverage of the program.

The major water resources study of Bicol (\$596,000) has already generated potential studies within Bicol in excess of the proposed third loan. If the results of these follow-on studies are favorable, the prospect for project financing should be excellent.

^{1/} Subsequently reduces to \$1,628,253.10

Description of the Activity

Use of Loan Proceeds

Proceeds of the proposed loan will be available to finance the foreign exchange cost of such activities as pre-feasibility and feasibility studies, market studies, planning and design studies, engineering consulting services and other professional services and related commodities and equipment as may be required for the preparation and implementation of economic development projects and programs as requested by NEDA and approved by A.I.D.

In accordance with present AID policy, studies eligible for AID financing will be limited, unless otherwise agreed on a case-by-case basis, to the three primary sectors of A.I.D. emphasis, i.e., Sections 103, 104 and 105 of the Foreign Assistance Act, with at least half of the total loan being linked to food and nutrition. This A.I.D. approval criteria is more fully described in Part III of this paper. That the GOP is clearly supportive of A.I.D.'s general policy is seen in its formal letter of application (Annex C) which states in part, "In addition we are also intending to submit for USAID assistance feasibility studies of a number of projects that are generally supportive of rural development. We will however, put particular emphasis on feasibility studies of projects that are directly related to food production as well as distribution both of which have been accorded topmost priority in the allocation of public investments." The potential study list is in accord with this statement.

At present, it is contemplated that the loan proceeds will be allocated totally to entities of the GOP, and used primarily for activities in the public sector. However, use of loan funds by the private sector is not precluded, and would be considered on a case-by-case basis at the request of the NEDA. The terms and conditions of making these loan funds available to the private sector would also be subject to A.I.D.'s approval.

Services, and related commodities and equipment, having their source and origin in countries included in A.I.D.'s Geographic Code 941 will be eligible for financing under this loan.

Part III - Project Analyses

A. Prospective Studies and Other Activities to be Financed

The Second Feasibility Studies Loan was used to finance the foreign exchange component of the services of a three man team (an economist, an engineer and an urban regional planner) to develop "Scopes of Work" for twenty priority projects identified by the GOP. These Scopes have been drafted and are under review by the GOP. The GOP has indicated that it will ask that several of these studies be financed using the proposed A.I.D. Consulting Services Loan Funds sometime in the very near future. In addition Feasibility Study Loan II provided for a \$596,000 contract with TAMS/TRANS ASIA for the identification and reconnaissance investigation of flood control and irrigation projects in the Bicol River Basin. Drawing on existing data, TAMS has already identified potential project studies with a cost of \$2,050,000. Given the increasing GOP support to the Bicol River Basin program, it is expected that a high priority will be given to the proposed studies and subsequent financing of the related projects. A listing of prospective "Scoped" projects and Bicol studies which may fall within the selection criteria limits for A.I.D. approval follows:

1. Feasibility studies for various components of the Bicol Regional Development Plan as developed by the Bicol River Basin Development Council working in conjunction with Tippets, Abbot, McCarthy and Stratton (TAMS). TAMS is undertaking the overall River Basin water management studies in the Bicol area under a contract financed under Feasibility Studies II. 2,050,000
 - (a) Drainage of Quinala River Basin. Improved drainage in 15,000 ha of rice land south of Lake Bato, 8 month study, cost \$100,000.
 - (b) Bicol Basin Groundwater Development. Exploratory groundwater development program to provide supplemental irrigation sources basinwide. Duration one year, cost \$200,000.
 - (c) Watershed management study. Detailed study of Bicol Basin to determine causes and potential corrective actions to prevent continued excessive river sedimentation. Duration six months, cost \$75,000.
 - (d) Naga-Calabanga Pump Irrigation Project. Detailed feasibility study of 13,000 ha irrigation, drainage and flood control project in Delta area of Bicol River. Duration one year, cost \$350,000.
 - (e) Pulantuna Dam & Reservoir. Second stage feasibility study - including exploratory drilling for Pulantuna Dam multipurpose project. Duration 18 months, cost \$400,000.
 - (f) Lake Bato Regulator - Feasibility studies on existing 25sq km lake as storage for supplemental irrigation project for 20,000 ha rice land. Duration 8 months , cost \$100,000.

- (g) Salinity Barrier - Further studies on Salinity Barrier at mouth of Bicol river as follow on to preliminary study completed under grant financing by Army Corps/Engineers Consultant. Duration 10 months, cost \$250,000.
- (h) San Fernando - San Vicente Project - Flood control, drainage and irrigation allow double cropping 13,000 ha rice land. Duration 8 months, cost \$350,000.
- (i) Bulti Lake Reservoir - Feasibility study on use existing 18 ha lake for dry season storage and irrigation 800 ha rice land. Cost \$150,000.
- (j) Flood Diversion Channels - Revised feasibility studies on flood diversion channels at mouth of Bicol River. Existing channels were constructed without adequate studies and are believed to have detrimental impact on the complex ecology of the Delta area. Final scopes are being prepared by TAMS. Duration six months, cost \$75,000.

Summary cost Bicol - \$2,050,000

- 2. An Integrated Development and Water Management Plan for the Canadaba Swamp Area. Purpose of the study is to formulate an integrated development/land use plan for Canadaba with special emphasis on agriculture, transportation, fishing, agri-industrial development and community settlements. The plan will also include water management (flood control, irrigation, water supply, distribution, wastewater control and solid waste disposal) and water utilization. Duration 12-15 months, \$350,000.
- 3. An Integrated Development and Transportation Plan, Pampanga Delta Project Area. Study will provide an integrated area development plan, transportation (roads and highways) and port (including fishing port development) sectors. Duration 12-15 months, \$350,000.
- 4. A study to Determine Optimum Levels of Investment for Rehabilitation of National Irrigation Systems. Study will appraise the 115 national irrigation system network distributed throughout ten operational regions. It will also include construction cost estimates for rehabilitation and operational cost requirements for several of the best systems. Duration 8 months, \$130,000.
- 5. Water Resource Development -Bulu River Project. This study will appraise the water transport system in the area and develop a water management plan designed to provide for utilization of Bulu River flows for year round irrigation to approximately 8,600 hectares of land adjacent to the Penaranda River Irrigation System. Duration 12-15 months, \$350,000.

6. An Integrated Development and Water Management Plan for the Bataan Province. Study will include land use and water resources development. Duration 12-15 months. \$350,000.
7. An Integrated Development Plan (with emphasis on) small farmers for:
 - (a) Leyte-Samar Region. Study will review the plans and programs of each of 5 provinces in the region and the regional capital of Tacloban. Plan will aim to develop the region's cooperative farming, reforestation, water resource management, agri-business, rural electrification, human resource capabilities. Duration 1 year, \$220,000.
 - (b) Bohol-Cebu-Negros Oriental Region. Study will also review plans and programs of these three principal islands. Plan for these areas will include the development of a transportation system (including waterborne linkages), water resources, rural electrification, agri-business capabilities. Duration 1 year, \$220,000.
 - (c) (i) Provinces of Surigao Del Norte, Surigao Del Sur, (ii) North Cotabato, South Cotabato and (iii) Bukidnon. These studies will review the plans and programs of each province, assess significant factors affecting the development for each province, and formulate provincial plans to increase agricultural productivity, develop cooperative farming, agri-business, small-scale industry, rural electrification, water resource management and employment capabilities. Duration 6-9 months, \$170,000 each. Subproject total Section 7, \$1,080,000.
8. An Integrated Development Plan and Farm-to-Market Road Feasibility Study for:
 - (a) Island Province of Palawan and
 - (b) Panay-Negros Occidental Region. The studies will formulate plans for a well-developed network of roads and highways which are basic needs for the development of these agricultural areas. Duration 6-9 months, \$170,000 each. Subproject total Section 8, \$340,000.

The overall total of potential studies is 5.0 million. While this substantially exceeds the proposed amount of the loan, it should be kept in mind that the proposed studies do not have final GOP or AID approval.

B. Cost Estimates/Financial Plan

The total foreign exchange cost of the proposed activity is \$2.0 million. The local currency cost is presently undetermined but is likely to approximate ₱ 14 million (\$2.0). Preliminary FX costs of potential studies are listed on the preceeding pages of this project paper. Detailed cost estimates on all the potential studies except Bicol have been made by NEDA and its consultants financed under Feasibility Study Loan II.

Studies proposed for the Bicol have FX costs estimated at \$2,050,000 based on preliminary work undertaken to date by TAMS under the Water Resources survey financed under Feasibility Study II. Detailed scopes are not yet available for these activities and costs are therefore approximate.

The local cost financing for the individual studies will be provided either by NEDA or the individual agency benefitted. Operating budgets of the benefitting agencies normally allow for the funding of studies of this type without specific budgeting action by the COP. No difficulties have been encountered in prior loans that would highlight the need for specific individual conditions or covenants for local cost financing.

Given the above factors, the project loan is considered to be based on satisfactory financial plans and costing.

C. Environmental Considerations

In conformance with current A.I.D. policy as stated in Manual Circular No. 1221.2, it will be required, where appropriate, that all scopes of work and contracts negotiated for financing under this loan contain a provision calling for a thorough assessment of the environmental and ecological impact of the project or other activity to be studied and recommendations as to whatever action the consultant deems appropriate under the circumstances.

If environmental and/or ecological aspects are considered marginal to the proposed activity, such assessment and recommendations will not be required. In such cases, a statement will be prepared and made a part of A.I.D.'s records of the loan, which justifies the position taken.

D. Income Distribution, Employment Considerations and the Role of Women

In conformance with current A.I.D. policy (P.D. No. 48), it will be required, where appropriate, that studies proposed for financing hereunder will include an assessment of the employment generation and income distribution aspects involved. Where indicated, and to the extent necessary, such assessment may include, for example, a cost/benefit comparison for carrying out the project by labor-intensive methods vs. capital-intensive methods. Similarly, where appropriate, the studies proposed for financing will include an assessment of the project's potential for involving women in the development process (P.D. No. 54).

E. Social Analyses/Benefits Considerations

Since most of the consulting services financed under the loan will result in planning studies, feasibility studies, and/or project design activities, the project will not (in achievement of its purpose objective) directly impact on the rural poor. The impact of specific studies undertaken under this loan on the sector goal e.g. "Further the welfare of the people in the rural areas through more equitable distribution of income", will be dependent on two key factors:

- (a) Project selection and design keyed to a focus on activities that will contribute to the goal objective and
- (b) Subsequent financing of projects developed by the studies financed under this loan.

The discussion within this section is focused on the first of these factors e.g. project selection and design.

F. Setting

The Philippine economy, as other LDC's, has been characterized as a "dual" economy with a rapidly growing modern sector concentrated basically in the greater Manila area and to a lesser extent in secondary urban areas such as Cebu. With the exception of extractive industries and certain agricultural activities such as sugar, growth within the economy has centered in these areas. Investments to date have been heavily concentrated in these areas benefitting only a relatively small part of the Philippine population. Most Filipinos who are the long-term target beneficiaries of the proposed loan are among the nation's poor and reside in the rural areas and small municipalities.

It is within these areas that the poverty problem within the Philippines is the greatest. 12 of the 15 million Filipinos who fall within the lower 40% income bracket reside in the rural areas. The geographical distribution of this population is set out in the table on the following page extracted from the IBRD economic report and based on the 1971 household statistics.

Given the heavily rural concentration of the population, the largest additions to the labor force will develop in the rural areas where the largest percentage of the poor already exist. The Philippines faces a difficult task in creating sufficient new job opportunities for the rapidly increasing rural population. The GOP will either have to create job opportunities within the rural areas or witness continued migration to the urban centers as has occurred increasingly in the past. The rural urban migration pattern has already resulted in creation of the largest pool of unemployed in the urban areas. As indicated in the 4 year plan - 356,000 or 56% of the unemployed in 1971 were urban unemployed. Failure to create greater rural job opportunities therefore will likely exacerbate this problem.

Unfortunately, agriculture, the largest rural and national employer (1970-6.4 million) does not of itself offer a full solution to this problem. The agricultural sector historically has been marked by a progressive expansion of subsistence farming into underdeveloped land areas thus both absorbing population additions into agricultural employment and providing increased food production. Sometime in the 1960's the limits of land extension were reached in the future the increased population will increasingly be surplus to the labor requirements of the farm sector.

IBRD estimates in their 1973 economic report indicate a new labor force addition of 3.9 million people to the labor force through the period of 1970-1980. Only 1.0 million of these will be absorbed into agriculture. 2.4 million will be absorbed by mining, manufacturing and

services and an estimated 300,000 will be added to the unemployed.

Population and Employment
1960, 1970 and 1980 a/

	<u>Number (millions)</u>			<u>Average Annual Growth</u>	
	1960	1970	1980	1960-70	1970-80
Population	27.6	37.2	50.0	3.0	3.0
Labor Force	9.9	12.9	16.8	2.7	2.7
Employment	9.3	11.9	15.5	2.5	2.5
Agriculture	5.7	6.4	7.1	1.2	1.0
Mining & Manufacturing	1.2	1.5	1.9	2.3	3.0
Services	2.4	4.0	6.5	5.1	4.0
Unemployed	0.6	1.0	1.3	5.0	2.7

Creating employment opportunities in the rural areas, both agricultural and non-agricultural, is therefore a key objective of the Philippine government. While creating new non-farm employment will help the income distribution problem, agricultural improvement projects which may result from studies undertaken under the loan are still a high priority and will also contribute to increased incomes in the farm sector itself - both with respect to farm incomes and agro industries.

While agriculture does not provide a sufficient scope for new employment generation - it does provide the main opportunity for increasing rural incomes. This is illustrative by the fact that while agriculture will absorb directly only 25% of the new labor force, it constituted in 1970 54% of the labor force and the major portion of the population in the lower income brackets.

In order to achieve the income redistribution to aid employment generation within the rural areas as set forth in GOP plans, it will also be necessary for the GOP to marshal an expanded program of assistance to promote regional dispersal of industry and support to small scale industries.

USAID and a variety of other donors has been working with the GOP on this problem and the December 74 consultative group reviewed a comprehensive overall analysis by the IBRD and the GOP on Industrial Development Problems and Prospects, including coverage of regional dispersal and support of small scale industries.

As noted in this report there are 332,000 workers in industrial establishments with 20 or more workers. 156,000 of these workers are employed in the greater Manila area and another 100,000 in other parts of Luzon. Only 76,000 are located in the Visayas and Mindanao.

Significantly nearly one million workers or 71% of the manufacturing labor force is engaged in establishments of under 5 persons. Statistics on this group are not totally reliable, but the IBRD estimates that there is reasonable regional distribution of the small industry grouping.

These factors clearly indicate the substantial potential for employment generation through promotion of small scale industries in general and the desirability of geographical dispersion of larger establishments which will create opportunities for small scale manufactura geared to subcontracting and service of the larger industries.

The proposed studies listed on the "potential" list for this loan concentrate heavily on (1) Agriculture related developments and (2) initial area development planning studies.

The first area of emphasis hold promise of raising the incomes of the 54% of the labor force still employed in agriculture. The second emphasis on area development schemes is a first step in developing localized planning efforts that will help transfer the national governments small scale industry and industrial dispersal plans into meaningful action programs at the local level.

Within this admittedly broad focus, the general parameters of the proposed loan and related studies appear sound in the context of AID's current mandate.

G. Target Beneficiaries/Project Selection

Given the above setting, the agreement between USAID and the GOP is to utilize the proposed loan for activities that are expected to contribute, through resulting projects, in partial alleviation of some of the above problems of the rural poor. The urban poor, a large and important segment of the poor and unemployed, are only a partial target of the loan. Those urban poor concentrated in Manila and Cebu (the largest portion) are unlikely to be directly affected. Those urban poor located in the secondary cities will be partially addressed in the context of planning and project studies focused on area development program which make up a large portion of the potential project list.

The list of potential studies contained in Annex H of this project paper are heavily oriented toward the areas where the largest portion of the rural poor in the Philippines reside. For example, \$2.05 million of the potential list covers the Bicol area. 51.3% of the population in the Bicol area are in the lower 40% of families by income nationwide. Bicol accounts for 10.3% of the nationwide total in the lower 40% and the median family income in Bicol at ₱1814 (\$240) is one of the lowest in the country. Most of the low income population in Bicol are engaged in rice farming.

A basin social survey of the rural poor in Bicol showed they ranked irrigation and flood control (the subject of most of the proposed Bicol studies) as their first priority. Irrigation and flood control ranked above land reform, off farm employment and education; which were the next three priorities on the rural poor's "want" list. In sum, therefore, the Bicol studies focus on one of the highest priority areas of concentration of the lower income Bicolanos and on their own indicated priority needs.

The overall planning studies of Bicol undertaken to date by the AID assisted Bicol River Basin Council confirm the high priority of developing the water resources potential of the basin. Improved agricultural production is the greatest development potential and the largest single factor which will increase incomes of the poor within the area.

Inputs from other AID assisted activities will expand the areas of investment within the Bicol beyond water resources. Ongoing and prospective projects include:

1. Specific Rural Electric Coops funded under AID RE I, II and III loans.
2. A basinwide 69 kv electric power transmission network and central station geothermal generation - initiated by AID's TIWI Geothermal and Transmission Loan.
3. Improved Provincial Water Systems which are under study by the CDM contract financed under Feasibility Study II and will be included in Provincial Water II or III financed from FY-76 and 88 AID loans.

4. Road systems - covering secondary and feeder road are funded by the rural road loan (FY-75) and the FY-76 \$10.0 million Bicol Roads Loan.

5. Individual Small Scale Irrigation projects (BISA's) are included in both Small Scale Irrigation I (FY-75) and Small Scale Irrigation II (FY-77).

6. A concentrated irrigation, flood control the Libmanan/Cabusao was financed in FY-75 (P 3.5 million).

7. The ongoing Bicol integrated area development grant project (\$986,000) provides general support to the River Basin Council in overall basin planning and a wide range of individual studies. Annex A provides a detailed rackup of the numerous studies underway or completed.

The above discussion of the Bicol area emphasis that the proposed studies under this loan are keyed to a rapidly developing broadly based and sophisticated plan for the Bicol area which has been keyed since its inception to the rural poor in Bicol.

A large portion of the non-Bicol studies proposed are first stage efforts to develop (for NEDA) preliminary integrated development plans for other key areas in the Philippines. Surveys of the perceived needs of the population in these areas has not yet been done; but the concentration on water, farm income, health and education is consistent with the perceived need of similar rural population within the Bicol. We are hopeful that the first stage studies in these areas will subsequently lead to more extensive development plans within these regions.

The geographical concentration of these additional studies also impacts on a number of the low income areas, notable Cagayan Valley, NE Mindanao, and the poorer sections of Central Luzon.

The one major area neglected to date is the Eastern Visayas where agricultural potential is limited. It is hoped that the GOP can be induced to begin general studies of this area as a first step in addressing the needs of this long neglected segment of the population. If this can be done the proposed feasibility study loan would provide a mechanism for financing such studies.

Regional Population Statistics, Family Income
and Distribution of the Bottom 40 Percent in 1971

Region	1971		Family Income (Pesos)			Distribution of Bottom 40% of Families		
	Population (mid-year)		Mean <u>b</u>	Median <u>c</u>	C/B (%)	No. of People		D/A (%)
	(million) <u>a</u>					(million) <u>d</u>		
<u>Philippines - Total</u>	<u>37.92</u>	<u>160.0</u>	<u>3736</u>	<u>2450</u>	<u>65.7</u>	<u>15.17</u>	<u>100.0</u>	<u>40.0</u>
<u>Northern Luzon</u>	<u>3.39</u>	<u>8.9</u>	<u>2890</u>	<u>1751</u>	<u>60.2</u>	<u>1.87</u>	<u>12.4</u>	<u>55.2</u>
Ilocos	1.87	4.9	3299	1813	55.0	0.98	6.5	52.4
Cagayan Valley	1.52	4.0	2390	1652	69.1	0.89	5.9	58.6
<u>Central Luzon</u>	<u>6.68</u>	<u>17.0</u>	<u>4695</u>	<u>3520</u>	<u>72.7</u>	<u>1.61</u>	<u>10.6</u>	<u>24.1</u>
City of Manila	1.00	3.7	7735	5202	66.8	0.10	0.6	7.1
Central Luzon	5.23	13.9	41.7	3119	75.6	1.51	10.0	28.6
<u>Southern Luzon</u>	<u>10.16</u>	<u>26.8</u>	<u>3866</u>	<u>2630</u>	<u>68.1</u>	<u>3.81</u>	<u>25.0</u>	<u>37.5</u>
Southern Tagalog ^{/a}	7.12	18.8	4332	2960	68.3	2.25	14.7	31.6
Bicol	3.04	8.0	2784	1874	67.3	1.56	10.3	51.3
<u>Visayas</u>	<u>9.33</u>	<u>23.8</u>	<u>2818</u>	<u>1930</u>	<u>68.5</u>	<u>4.68</u>	<u>30.8</u>	<u>49.9</u>
Western Visayas	3.86	10.1	3266	2332	72.7	1.50	9.9	38.0
Eastern Visayas	5.52	14.6	2548	1651	64.8	3.18	21.0	57.6
<u>Mindanao</u>	<u>8.31</u>	<u>21.9</u>	<u>3582</u>	<u>2410</u>	<u>71.3</u>	<u>3.20</u>	<u>21.1</u>	<u>38.5</u>
S Mindanao	4.16	10.3	3067	2100	71.4	1.38	9.0	43.3
SW Mindanao	4.17	11.6	3577	2549	71.3	1.84	12.1	35.6

Source: (a) Population - by interpolating 1970 census data.

(b) Macionis, Tito A. and T. C. Serrano. "Some Notes on the Sources of Income Disparities among Philippines Families," Journal of Philippine Family Study, Vol. 24, No. 4, 4th quarter 1973, P xv-xxii.

(c) Distribution of bottom 40 percent of families based on mission calculations using the 1971 household income-expenditure survey data.

^{/a} Includes part of the Greater Manila Area.

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PART IV. Implementation Arrangements

A. Analysis of the Executing Agency and AID Administrative Arrangements

(1) Borrower and Executing Agency

The Borrower of the proposed loan will be the Government of the Philippines (GOP) and the National Economic and Development Authority (NEDA) will have overall responsibility within the GOP for implementation of this activity. The Agency or Department of the GOP having responsibility in the particular areas of concern to be studied will act as the cooperating agency, with NEDA, on the individual study or studies which are approved for financing.

As the legal authority established for the purpose of developing and managing the overall 4 year Development Plan of the Philippine Government, NEDA will have final review and approval authority on behalf of the GOP for individual studies financed under this loan.

Under prior feasibility studies loans NEDA (or NEC) has developed working arrangements with the implementing agencies for preparation and submission of individual study requests. NEDA has developed competent in-house talent to review specific proposals including scopes of work. In some cases NEDA may participate in actual contractor selection and study implementation.

In cases of the individual beneficiary agencies, substantial experience already exists in many cases to select, develop and administer contracts with U.S. consultants. Projected key recipients of this loan such as the National Irrigation Administration, the Bureau of Public Works, the Bicol River Basin Development Council etc already have extensive experience with AID and other donor financed contracts. By LDC standards these institutions are considered relatively sophisticated.

As a Pre-Condition to acceptance of a project under these loan funds, NEDA will be required to submit, for review and approval by A.I.D., the rationale for selection of studies and other professional services to be financed and a preliminary scope of work for such services. Further, before approving the Contract for Services, the GOP must provide, for A.I.D. review and approval, (1) a detailed scope of work, (2) the criteria used in the selection of consultant, (3) a rank-order of consultants selected, and (4) a draft of the negotiated contract for performance of the services. A tentative operational plan has been prepared and informally submitted, the essential provisions of which are given in the following paragraphs.

NEDA will determine priorities for the use of loan proceeds by identifying projects from national planning documents, sector surveys,

industry studies and regional development schemes. The sector of economy into which the project falls will be of high priority in the GOP's development plans. Project and other studies may be organized and proposed by entities of the government, by other government officials or by the private sector.

Priority Use of Funds

In determining priorities for use of loan funds, the procedures outlined below will be followed:

- The entity proposing the study shall submit its application to NEDA.
- NEDA will ascertain the pertinence and relationship of the proposed study to other existing needs and to the country's overall economic development plans.
- If approved by NEDA, the application will be transmitted to A.I.D. for review and approval.
- If approved by A.I.D., the application will be returned to the proposing entity for appropriate action (preparation and approval of work scope, and solicitation of proposals).

Selection of Consultants

The procedures for selection of A & E firms and other consultants to provide the desired services shall be as follows:

- Prior to solicitation of proposals, NEDA and/or the cooperating agency will advise A.I.D. (i) as to whether prospective firms will be pre-qualified, and (ii) as to evaluation criteria to be used in prequalifying firms and/or ranking detailed proposals.
- After receipt of proposals, the cooperating agency will conduct the evaluation/selection process in accordance with the pre-determined selection criteria and procedures and transmit to NEDA the summary of its selection process together with the list of consultants arranged in the order of ranking, and a recommendation to negotiate with the top-ranked consultant.
- NEDA will review the cooperating agency's evaluation procedures and the results of the evaluation, and forward same to A.I.D., with a recommendation and supporting justification.
- If approved by A.I.D., the approval will be transmitted through NEDA to the cooperating agency for implementation.

Upon selection and approval of the consultant, NEDA and the cooperating agency will jointly negotiate a draft contract with the consultant. The draft will be submitted for approval by A.I.D.

Upon approval, NEDA will then secure whatever other GOP approvals may be necessary and release the contract to the cooperating agency for implementation.

(2) AID

USAID/Manila will be the Agency's implementation unit for the loan. Under existing delegation of authority USAID has the responsibility for review and approval of scopes of work, contractor selections, contract review and approval, IFB's, etc. Assistance to USAID/Manila on these matters is provided by the Regional Legal Advisor in Jakarta. This arrangement is utilized on all AID Philippine loan projects and is working satisfactorily.

Unless otherwise agreed on a case-by-case basis, an appraisal report will be prepared by USAID to determine how well the proposed project "fits" the three primary sectors of A.I.D. emphasis (Sections 103, 104 and 105 of the Foreign Assistance Act.) USAID will be guided by the following in conducting an appraisal before giving acceptance of a project for funding under these loan funds by making a rough determination of the following:

- (1) affect upon employment generation
- (2) affect upon food production
- (3) affect upon health improvement
- (4) affect upon education development
- (5) role of women
- (6) preliminary environmental assessment
- (7) probable impact on poor majority income and standard of living
- (8) development potential for agribusiness enterprises serving small farmers.
- (9) development of small scale industry to achieve income redistribution and promote regional development.

(B) Implementation Schedule

Loan Authorized (AID/W)	December 1975
Loan Agreement Negotiated and Signed (GOP/AID)	January 1976
Conditions Precedent to opening letters of commitment met (GOP/AID)	March 1976
First Letter of Commitment opened (GOP/AID)	April 1976
TD for disbursement request	July 1978
Terminal date for disbursements	December 1978

(C) Evaluation

Success or failure in achieving the objectives of a Consulting Services Loan cannot be fully measured until projects assisted by studies financed under the loan are found acceptable for financing by the host government and/or the international lending community. The ultimate impact on the intended beneficiaries will not, of course, be known until such projects are constructed and are operational for a period of time. Inasmuch as the several studies to be carried out under the proposed loan have not as yet been developed or selected it is not possible to develop an elaborate evaluation plan for the activity as a whole. The logical framework matrix included as Annex E will however be utilized as an aid in the assessment and selection of individual studies proposed for financing and to serve as a guide for future overall activity evaluation. Individual studies proposed for financing will be tested towards meeting the goal, purpose and objectives of the loan prior to commitment of funding. Completed studies will also be examined accordingly. However, the final test will only come when and if the project studied is ultimately financed.

As an ongoing forum for Joint USAID/NEDA evaluation of GOP performance, it is proposed that formal joint reviews be held at six-month intervals, or more frequently if required. The purpose of these reviews is:

- (a) to evaluate progress to date on implementation of the proposed loan, including status of project selection, development and implementation.
- (b) review progress on part of GOP in following up on recommendations of completed feasibility studies financed under this or prior AID feasibility study loans

(c) review the requirements for assistance from outside consultants to assist, if required, on development and scoping of proposed new projects.

(d) review the effectiveness of NEDA in coordinating the utilization of this loan with operating line agencies who are primary GOP beneficiaries of loan.

(D) Conditions, Covenants, and Negotiating Status

Since this is the third as a series of Consulting Services Loans, the basic conditions and covenants required for the proposed loan are essentially those utilized in the prior loans. The shift in emphasis on this loan to activities concentrated in AID's primary emphasis categories (e.g. sections 103, 104 and 105 with 50% in section 103) has already been agreed to by the GOP.

There are, correspondingly, no new or unresolved conditions or covenants to be negotiated with the GOP.

PHILIPPINES: FEASIBILITY STUDIES LOAN (NO. 492-H-023)

<u>Project Description</u>	<u>Consultant</u>	<u>Amount</u>	<u>Date of Contract</u>	<u>Status</u>
1. Mechanized Rice Production Study (Palawan)	American Factors Associates, Ltd.	\$135,269	2/12/68	Completed - No specific action taken to date
2. Development of Water Resources (1st phase of #3 below)	U. S. Bureau of Reclamation	130,000	6/10/69	Completed.
3. Magat River Multi-Purpose Project (irrigation, hydro-electric power, transmission lines)	U. S. BuRec	212,500	5/19/71	Completed. Study used as basis IBRD proposed 1975 \$100 million first phase financing of ultimate \$400 million project.
4. Development of Rural Electrification Service Coops	National Rural Electric Cooperatives Assn.	254,975	12/2/69	Completed; A. I. D. has lent to date \$58 million to the GOP to assist in financing construction of rural electric coops, and is grant financing technical assistance to the National Electrification Administration for the further development and implementation of a national rural electrification program.
5. Power Grid Study (Mindanao)	Middle West Service Co.	143,063	7/25/69	Completed; study used as basis for ADB loans to GOP for power generation and transmission on the island of Mindanao, to date totalling \$45.4 million.

<u>Project Description</u>	<u>Consultant</u>	<u>Amount</u>	<u>Date of Contract</u>	<u>Status</u>
6. Provincial Water System Pre-feasibility survey (See #7 below)	U.S. Dept. of Health, Education & Welfare	\$ 35,000	6/24/70	Completed; survey followed by feasibility study of institutionalizing a national plan for assisting provincial urban communities in improving water supply services, including technical and economic studies of six specific communities.
7. Provincial Water System Studies (2nd phase of #6 above).	Adrian Wilson Int'l Assoc., & James M. Montgomery Consulting Engrs, Inc. (Joint Venture)	389,000	5/6/71	Completed. A.I.D. lent \$15 million in 1974 to finance initial 5 systems and provided grant financing for institutional development. 10 more municipalities under study under Loan 492-H-030.
8. Irrigation scheme - Laguna Lake Region	Hydrotechnic	327,200	7/7/72	Completed. ADB appraisal team using as basis proposed loans. First phase loan anticipated 1975 in amount approximately \$10 million. Total requirements - \$45 million.

Original Authorized Amount:	\$2,000,000.00
Deobligated (2/19/72)	<u>371,746.90</u>
Revised Loan Amount	\$1,628,253.10

PHILIPPINES: SECOND FEASIBILITY STUDIES LOAN (NO. 492-H-030)

<u>Project Description</u>	<u>Consultant</u>	<u>Amount</u>	<u>Date of Contract</u>	<u>Status</u>
1. Infrastructure Feasibility Studies (Scoping)	Engineering Science, Inc.	\$100,000	2/4/71	Completed. Twenty scopes of services for technical and economic feasibility studies prepared to assist GOP in its infrastructure and integrated area development planning.
2. Ground Water Test Well Program	Adrian Wilson Int'l Assoc., & James M. Montgomery Consulting Engrs, Inc. (Joint Venture)	80,000	8/8/74	Completed. Test well program completed as basis final system designs for municipalities of Davao and Cagayan de Oro.
3. Methodology for Project Evaluation	Jeffrey Holland	32,875	9/12/74	Completed. Methodology developed to assist GOP in its priority ranking of alternative development project proposals.
4. Feasibility Studies for 10 Additional Provincial Water Systems	Camp, Dresser & McKee	759,273	11/15/74	Ongoing: Possible A. I. D. or ADB funding. \$15 - 30 million.
5. Comprehensive Water Resources Study - Bicol River Basin	Tippets-Abbott-McCarthy-Stratton & Trans-Asia (Joint Venture)	596,000	6/27/75	Identification and reconnaissance investigation of flood control and irrigation projects; expected to result in \$150-200 million in flood control and irrigation works.

<u>Project Description</u>	<u>Consultant</u>	<u>Amount</u>	<u>Date of Contract</u>	<u>Status</u>
6. Provincial Water Supply Long-Range Planning and High Impact Study	Camp, Dresser & McKee	\$170,000	May 1975	
7. Feasibility Study for 10 additional Prov. Water systems - Amendment	Camp, Dresser & McKee	\$ 25,000	November 1975	Contract amendment to provide 4 mm of specialized engineering services
Authorized Amount:	\$2,000,000			
Commitments	<u>1,743,000</u>			
Uncommitted but proposed for JMM advisory services	257,000			



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SUBJECT: PRF FOR THIRD FEASIBILITY STUDIES LOAN

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Dated 11/27/74	Initials

Date Answer Due 12/4/74

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1. EA PROJECT ADVISORY COMMITTEE DISCUSSED SUBJECT PRF NOVEMBER 22 AND APPROVED MISSION PREPARATION PP. FOLLOWING PROVIDE GUIDANCE PP DEVELOPMENT.

2. STUDIES ELIGIBLE FOR AID FINANCING MUST BE LIMITED THREE SECTORS AID EMPHASIS, I.E.; SECTIONS 103, 104, 105 OF FAA WITH AT LEAST HALF (AND PREFERABLY MORE) OF TOTAL LOAN BEING LINKED TO FOOD AND NUTRITION. USE OF LOAN FOR THESE PURPOSES WOULD RELATE BETTER TO CONGRESSIONAL MANDATE AND THEREBY AFFORD HIGHER PRIORITY FOR USE LIMITED DEVELOPMENT LOAN RESOURCES;

3. PROVIDE STRONGER JUSTIFICATION FOR AID LOAN APPROACH SHOULD DEMONSTRATE THAT AID LOAN WILL MORE EFFECTIVELY DIRECT PHILIPPINE DEVELOPMENT EFFORTS TOWARDS THREE PRIORITY SECTORS AND ATTRACT OTHER DONORS ASSISTANCE TO EVENTUAL PROJECTS IN THESE SECTORS. POTENTIAL INTEREST OTHER DONORS FINANCING THESE FEASIBILITY STUDIES SHOULD BE THOROUGHLY EXPLORED/DISCUSSED AID/C WILL CHECK IERD AND EX-IM AND CABLE RESULTS

4. EVALUATE RESULTS OF TWO EARLIER FEASIBILITY LOANS, TRACING EVOLUTION OF COMPLETED STUDIES INTO COMPLETED, ON-GOING OR FORESEEN PROJECTS AND THEIR CONTRIBUTION TO PHILIPPINE SOCIAL/ECONOMIC DEVELOPMENT CONFIRM PLANS TO COMMIT/SUBOBLIGATE TOTAL FUNDS SECOND FEASIBILITY LOAN PRIOR END FY 75. DISCUSSION SHOULD ESTABLISH PROBABILITY OF HIGH PAYOFF FROM THIRD FEASIBILITY LOAN WILL ALSO ATTEMPT ASCERTAIN IERD AND EX-IM POTENTIAL INTEREST IN CAPITAL FINANCING FOR RESULTANT FEASIBLE PROJECTS;

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5. CRITERIA FOR STUDIES MUST INCLUDE: (A) BENEFIT TO RURAL POOR AND OPPORTUNITY FOR POOR TO PARTICIPATE; (B) STATEMENTS ON ROLE OF WOMEN AND IMPACT ON ENVIRONMENT

2249

6. INCLUDE LOG-FRAME MATRIX PROVIDING PRECISE DEFINITION OF OVERALL GOAL AND LOAN PURPOSE AND SHOWING LOGICAL RELATIONSHIP BETWEEN GOAL, PURPOSE, AND EXPECTED OUTPUTS

7. BOND PARTICIPATED THIS DISCUSSION AND PREPARED TO EXPLAIN OR ELABORATE. INGERSOLL
BT

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REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

P.O. Box 1116, Manila

Tel. 59-7091
Cable Address: NEDAPHIL

December 10, 1974

RECEIVED
DEC 13 10 26 AM '74
USAID/C&R

Mr. Thomas C. Niblock
Director, United States Agency
for International Development
Ramon Magsaysay Center
1680 Roxas Boulevard, Manila

Dear Sir:

As a recipient of two feasibility studies loan from the U.S. Agency for International Development in the amount of \$2 million each, the Philippine Government has been able to conduct various feasibility studies of projects which we consider to be of significance to the country's development efforts.

Under the first loan signed in September 1967, studies on farm mechanization, irrigation, provincial water supply, power and rural electric cooperatives were undertaken. Such studies have led to capital financing of:

- a) the provincial waterworks project and two rural electrification projects with loan assistance from USAID in the amount of \$15 million and \$40 million, respectively; and
- b) the ADB-assisted power generation and transmission projects in Mindanao.

Moreover, capital financing for the following projects whose pre-investment studies were similarly funded out of the first loan is foreseen:

- a) the Magat River Multi-Purpose Project with an estimated foreign exchange cost of \$240 million envisioned for joint financing by IBRD and ADB; and
- b) a third USAID-assisted rural electrification project.

Under the second loan signed last June 30, 1973, you will note that we have indorsed to your Office four (4) projects for financial assistance. These are:

- a) the Scoping project;
- b) the Provincial Waterworks project;

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- c) the Methodology for Project Evaluation project; and
- d) the Bicol River Basin Comprehensive Water Resource Study project.

The Scoping project has been successfully completed, the Methodology for Project Evaluation project is proceeding very well on schedule; and funds for the Provincial Waterworks project have already been committed. Our records show that these three projects would already utilize about 50% of the total loan value of \$2 million. Together with the Comprehensive Water Resource Study project, whose foreign exchange cost has been estimated at approximately \$600,000, these projects would leave a balance of about \$500,000.

It is anticipated that the loan amount would be fully committed by the end of FY 1975, six months before the terminal date for commitment (December 31, 1975) and that the current balance would not be sufficient to cover the foreign exchange requirements of various feasibility and detailed engineering studies that we are intending to propose for USAID assistance. These studies include detailed engineering for the Mangahan Floodway and five irrigation projects of the Laguna Lake Development Authority (LLDA) found feasible by studies conducted under USAID Grant Assistance and under the first loan, respectively. In addition, we are also intending to submit for USAID assistance feasibility studies for a number of projects that are generally supportive of rural development. We will, however, put particular emphasis on feasibility studies of projects that are directly related to food production as well as distribution both of which have been accorded topmost priority in the allocation of public investments.

Thus, on behalf of the Government of the Philippines (GOP), a Third Feasibility Studies Loan of \$2 million under the same terms and conditions of the second loan is hereby requested. The GOP is, of course, prepared to make available the counterpart funds that may be required for the utilization of the loan.

Very truly yours,


JAIME C. LAYA

Acting Director-General

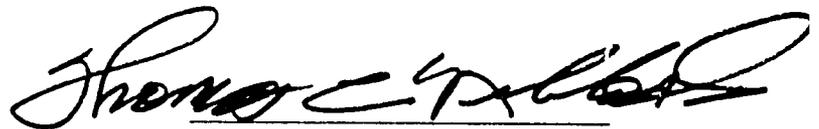
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Manila, Philippines

Ramon Magsaysay Center
1680 Roxas Boulevard

CERTIFICATION PURSUANT TO SECTION 611 (e)
OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Thomas C. Niblock, the principal officer of the Agency for International Development in the Philippines, having taken into account among other things, the maintenance and utilization of projects in the Philippines previously financed or assisted by the United States, hereby certify that, in my judgment, the Philippines has both the technical capability and the human resources capability to effectively maintain and utilize the proposed Third Feasibility Studies Loan.

This judgment is based upon the project analysis as detailed in the Philippines Third Feasibility Studies Project Paper and is subject to the conditions imposed therein.



Thomas C. Niblock, Director
USAID/Philippines

28 April 1975
Date

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Annex E

Life of Project: From FY 75 to FY 78
Total U.S. Funding: \$2 million
Date Prepared: 2/11/78

Project Title & Number: philippines - Third Feasibility Studies Loan

NARRATIVE SUMMARY

OBJECTIVELY MEASURABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

Program or Sector Goal: The broader objective to which this project contributes: (A-1)

Measures of Goal Achievement: (A-2)

(A-3)

Assumptions for achieving goal targets: (A-4)

Further the welfare of the people in the rural areas thru more equitable distribution of incomes.

Increased incomes and job opportunities in the rural areas.

1. GOP census and other income and employment data.
2. Independent socio-economic surveys and private studies.

Continued adherence by GOP to policy of furthering the welfare of the people in the rural areas thru more equitable distribution of incomes.

Project Purpose: (B-1)

Conditions that will indicate purpose has been achieved: End-of-Project status: (B-2)

(B-3)

Assumptions for achieving purpose: (B-4)

To finance priority prefeasibility, feasibility, sectoral market and consulting services including engineering services directly related to development projects primarily in rural areas.

1. Completion of studies and analyses.
2. The existence of GOP plans & budgetary provisions for development projects conceived in the foregoing studies.
3. AID/other donor financing commitment for projects studies.

1. Studies printed and disseminated.
2. GOP planning documents.
3. AID/other donor loan documents.

GOP continued willingness to accept foreign expertise in development of project proposals.

Project Outputs: (C-1)

Magnitude of Outputs: (C-2)

(C-3)

Assumptions for achieving outputs: (C-4)

Completed prefeasibility and feasibility studies, sectoral studies, market studies, consulting services, including engineering services related to development projects, primarily in the rural areas.

Indeterminate (5-10) number of completed studies of which at least half will be in the food and agriculture sector.

Comparison of scopes of work to completed studies.

That projects identified for study are in fact relevant to furthering the welfare of the people in the rural areas.

Project Inputs: (D-1)

Implementation Target (Type and Quantity): (D-2)

(D-3)

Assumptions for providing inputs: (D-4)

1. Foreign expertise needed to perform professional studies, analyses and other similar professional services.
2. U.S. dollar and GOP peso support for the above.

1. Indeterminate number of foreign consultants provided.
2. Up to \$2 M dollars and P 14 M pesos funding provided.

USAID and GOP contract records.

1. That required foreign expertise can be identified and recruited.
2. That requisite Filipino counterpart staff and peso support will be available on a timely basis.

CHECKLIST OF STATUTORY CRITERIA

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973

App. - Foreign Assistance and Related Programs Appropriation Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA 103; 104; 105; 106; 107.
Is loan being made

a. for agriculture, rural development or nutrition;

b. for population planning or health;

c. for education, public administration, or human resources development;

d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;

e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.

(a) This loan will be used to finance studies in the primary sectors of AID emphasis, agriculture, health and education with at least half of the total loan being linked to food and nutrition.

See (a) above.

See (a) above.

Although generally limited to sectors per (a) above, AID may agree to studies affecting these areas.

Yes.

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. FAA 201 (b) (5), (7) & (8); 208

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(3) Increasing the public's role in the developmental process.

(4) (a) Allocating available budgetary resources to development.

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 19) and intervention in affairs of other free and independent nations.) (See also Item No. 10).

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(1) Food production is top priority of the Philippine Government with the goal of achieving self-sufficiency in rice and corn and accelerated production of livestock, poultry, fish, fruits and vegetables. Plans for expended warehousing and distributions of the increased output of grains are being prepared and carried out with help from IBRD loan. The proposed project will partially contribute to this goal through financing feasibility studies related to these problems.

(2) See FAA 620(e)(1), Item 4, below.

(3) The four-year agriculture program is increasing the productive capability of Philippine farmers. The Department of Local Government and Community Development carries out programs at the barrio (village) level throughout the Philippines. A Decentralization Act providing more autonomy to the Province was enacted in 1967. The Provincial Development Assistance Program is operating in seventeen provinces.

Additionally, in an attempt to redistribute income and raise the rural standard of living, the GOP has recently embarked upon an aggressive land reform program. The GOP is well under way with a country-wide rural electrification program thereby increasing the role of the public through participation in local cooperatives.

(4) (a) More than 70 percent of the national budget is allocated to social and economic development. One-fourth of the budget goes to education, nearly 10 percent to agriculture and natural resources, and almost 20 percent to transportation and communications.

(6) Willing to contribute funds to the project or program.

(6) GOP will provide all local currency required.

(7) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

(7) Over the past six years the Philippines government has placed increasing emphasis on rural development in an effort to narrow the gap between the rich and the poor, to increase employment opportunities, raise the income levels of the rural population, and to improve the standard of living. Heavy investments are being made in Rural Electrification, transportation, irrigation, agrarian reform, farmer support services, agriculture production, nutrition, and education. Greatly increased external assistance from various bilateral and international donors over the past four years has been directed almost entirely to the rural sector.

B. Are above factors taken into account in the furnishing of the subject assistance?

B. Yes.

Treatment of U.S. Citizens and Firms.

3. FAA 620 (c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

3. No.

4. FAA 620 (e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

4. No.

5. FAA 620 (o); Fishermen's Protective Act. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,

5. There has been no such seizure.

a. Has any deduction required by Fishermen's Protective Act been made?

NA

b. has complete denial of assistance been considered by A.I.D. Administrator?

NA

Relations with U.S. Government and Other Nations

6. FAA 620 (a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba? 6. No.
7. FAA 620 (b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? 7. Yes.
8. FAA 620 (d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan? 8. This assistance is not for such a productive enterprise.
9. FAA 620 (f). Is recipient country a Communist country? 9. No.
10. FAA 620 (i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of
10. No

such subversion or aggression?

11. FAA 620 (j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?
11. The GOP has taken all reasonable measures to protect U.S. property. On infrequent occasions when damage has occurred, proper compensation has been made without delay.
12. FAA 620 (l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?
12. The Philippines has instituted an investment guaranty program with the full range of risk coverage.
13. FAA 620 (n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?
13. No.
14. FAA 620 (q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?
14. No.
15. FAA 620 (t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
15. There has been no such severance.
16. FAA 620 (u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?
16. Th
is not in default with respect to its dues, assessments or other obligations to the U.N.

17. FAA 481. Has the government of recipient country failed to take adequate steps to prevent narcotics, drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

17. No.

18. FAA s 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?

18. Yes. (Presidential Determination No. 74-14 dated 1/20/74).

Military Expenditures

19. FAA 620 (g). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (MPC/RC).)

19. Annual defense budgets average less than 15% of the national budget. Approximately one-third of this amount is for maintenance of peace and order. Philippine foreign exchange resources used to acquire military equipment are negligible. We know of no diversion of either development assistance or of PL 480 sales to military expenditures. We are not aware of any diversion of Philippine resources for unnecessary military expenditures.

Conditions of the Loan

General Soundness

20. FAA 201 (d) Information and conclusion on reasonableness and legality under laws of country and the United States) of lending and relending terms of the loan.

20. Interest on this loan will be 2 percent during the 10 year grace period and 3 percent for the 30 years remaining to maturity. These terms are reasonable and are not higher than the applicable legal rate of interest under Philippine law.

21. FAA s 201 (b) (2); s 201 (e)
Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multi-lateral plan, and the amount of loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?
22. FAA s 201 (b) (2). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
23. FAA s 201 (b) (1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
24. FAA s 611 (a) (1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?
25. FAA s 611 (a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan?
26. FAA s 611 (e). If loan is for Capital Assistance, and if U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
21. Each study financed under this loan must be justified individually. The GOP has submitted such an application to A.I.D. See Annex C.
22. The current and expected ratio between debt repayment and foreign exchange earnings of the Philippines is expected to be adequate. There are reasonable prospects of repayment. See Project Paper Part I, B.
23. Financing is not considered to be available from other sources on terms comparable to this proposed loan.
24. This feasibility studies loan does not require such plans to carry out the assistance. The number of feasibility studies undertaken will be limited by the amount of the loan.
25. All legislative authorities exist.
26. Yes. See Annex D.

Loan's Relationship to Achievement of Country
and Regional Goals

27. FAA s 207; s 113

Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs; (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy.

28. FAA 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

29. FAA 201 (b) (4). Information and conclusion on activity's relationship to, consistency with, other development activities, and its contribution to realizable long-range objectives.

30. FAA 201 (b) (9). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

31. FAA 209;
Information and conclusion whether assistance will encourage regional development programs.

32. FAA s 111. Discuss the extent to which the loan will strengthen the participation of urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable

27. Each of these factors will be considered and treated in the studies financed under this loan.

28. No.

29. This project permits the investigation of individual projects during which these factors are evaluated.

30. Individual studies will be selected on the basis of whether the area studied will contribute to self-sustaining growth.

31. Studies financed will focus solely on Philippine problems.

32. This will be one of the major criteria to be evaluated in the individual studies.

and encourage greater numbers of poor people to help themselves toward a better life.

33. FAA s 201 (f). If this is a project loan, describe how such project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development.
33. These factors will be considered in the individual studies.
34. FAA s 281 (a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private and local governmental institutions.
34. See #27 above.
35. FAA s 281 (b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
35. See #27 above.
36. FAA 2 (b) (3). In what ways does the act. . . . Reasonable promise of contributing to . . . development of economic resources, or to the increase of productive capacities?
36. Studies financed under this loan will be selected on the basis of their contribution to development of economic resources and the increasing of productive capabilities.
37. FAA 601 (a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry,
37. Studies financed under this loan which will be conducted by private firms will contribute to the effectiveness of agriculture and commerce; it is possible, depending on the nature of the studies selected, that this loan will have an impact on the other factors set forth in this section.

agriculture and commerce; and (f) strengthen free labor unions.

38. FAA 619. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

38. The Philippines is not a newly independent country.

Loan's Effect on U.S. and A.I.D. Program

39. FAA 201 (b) (6). Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

39. Although firms from Code 941 countries will be eligible to compete on this Project, past experience with feasibility studies in the Philippines indicates that U.S. firms will be the most likely contractors.

40. FAA 202 (a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

40. All feasibility studies financed under this loan will be conducted by private firms.

41. FAA 601 (b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

41. Procurement will be open to firms in Code 941 countries but it is likely that U.S. firms and institutions will conduct the studies.

42. FAA 601 (d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

42. See No. 41 above.

43. FAA 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and service financed by the loan.
43. Small Business Notification procedures will be utilized.
44. FAA 620 (h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
44. No. The loan agreement will contain implementation control prohibiting such use.
45. FAA 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.
45. It is expected that services financed under the loan will be from private firms and other non-government sources. U.S. government sources will be used only if there is an absence of qualified private firms. U.S. government sources will not compete with private sources and will be used only if they can be made available without undue interference with domestic programs.

Loan's Compliance with Specific Requirements

46. FAA 110 (a); 208 (e). In what manner has or will the recipient country provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made?
46. The loan agreement will so provide and the planned administrative arrangements will assure it.
47. FAA s 66g. Will arrangements preclude the use of funds for police training or other law enforcement assistance?
47. Yes.
48. FAA 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?
48. No.
49. FAA 201 (b). Is the country among the 20 countries in which development loan funds
49. Yes.

may be used to make loans in this fiscal year?

50. FAA 201 (d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? 50. Yes.
51. FAA 201 (f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise? 51. The proceeds of this loan will not finance any local currency activity. If Philippine firms participate in joint ventures with firms from Code 941 countries, the GOP will provide the local currency payment.
52. FAA 604 (a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? 52. Commodity procurement will be limited to AID Geographic Code 941.
53. FAA 604 (b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? 53. N.A.
54. FAA 604 (d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan? 54. Yes.
55. FAA 604 (e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? 55. N.A.
56. FAA 604 (f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable? 56. N.A.

57. FAA 608 (a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

57. There will be no excess property used.

58. FAA s 611 (b); App. s 101. If loan finances water or water-related land resources project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?

58. To the extent studies are financed hereunder for water related activities, the studies will undertake the computation of benefit/cost and other pertinent economic analyses.

59. FAA s 611 (c). If contracts for construction are to be financed what provision will be made that they be let on a competitive basis to maximum extent practicable?

59. Not applicable.

60. FAA s 612 (b); s 636 (h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

60. The loan will not finance any local costs. The GOP will provide all local currency.

61. FAA s 612 (d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

61. The U.S. does not own such excess foreign currency.

62. FAA s 620 (g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? 62. The loan agreement will limit the use of loan proceeds to procurement of eligible services.
63. FAA s 620 (k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? 63. Not applicable.
64. FAA s 636 (i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States or any guaranty of such transaction? 64. No.
65. App. s 103. Will any loan funds be used to pay pensions, etc., for military personnel? 65. No.
66. App. s 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? 66. Not applicable.
67. App. s 107. Will any loan funds be used to pay UN assessments? 67. No.
68. App. s 108. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7). 68. Yes.
69. App. s 110. Will any of loan funds be used to carry out provisions of FAA s s 209 (d)? 69.No.

70. App. s 111. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the loan.

70. This project has been included in the FY 76 Congressional Presentation on Table IV, page 59.

71. App. s 501. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress?

71. No.

72. MWA s 901. b; FAA s 640 C.

(a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels are available at fair and reasonable rates.

72. The Loan Agreement will contain a provision requiring compliance with this requirement.

(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?

(b) No.

73. Section 30 and 31 of PL 93-189 (FAA of 1973)
Will any part of the loan be used to finance directly or indirectly military or paramilitary operations by the U.S. or by foreign forces in or over Laos, Cambodia, North Vietnam, South Vietnam, or Thailand?

73. No.

74. Section 37 of PL 93-189 (FAA of 1973);

74. No.

App. s.111. Will any part of this loan be used to aid or assist generally or in the reconstruction of North Vietnam?

75. App. s 112. Will any of the funds appropriated or local currencies generated as a result of AID assistance be use for support of police or prison construction and administration in South Vietnam or for support of police training of South Vietnamese? 75. No.
76. App. s 604. Will any of the funds appropriated for this project be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-U.S. nationals? 76. No.
77. FAA of 1974 § 901. Has the country denied its citizens the right or opportunity to emigrate? 77. No.
78. FAA § 115. Will country be furnished, in same fiscal year, either security supporting assistance, Indochina Postwar Reconstruction, or Middle East peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs? 78. No.
79. FAA § 653(b). Is this assistance within the country or international organization allocation for the fiscal year reported to Congress (or not more than \$1 million over that figure plus 10%)? 79. Yes.
80. FAA § 662. Will arrangements preclude use of funds for CIA activities? 80. Yes.

DRAFT
CAPITAL ASSISTANCE LOAN AUTHORIZATION

Provided from Development Loan Fund.
Philippines: Third Consulting Services Loan

Pursuant to the authority vested in the Assistant Administrator, Bureau for Asia, Agency for International Development (hereinafter called "A. I. D. ") by the Foreign Assistance Act of 1961, as amended, and the Delegations of Authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title I, the Development Loan Fund, to the Government of the Republic of the Philippines (hereinafter called "Borrower") of not to exceed Two Million Dollars (\$2,000,000), to assist in financing the foreign exchange costs of services, equipment, and materials necessary for the performance of economic and technical prefeasibility and feasibility studies; sectoral studies, market studies and other capital project-related activities in the Philippines. This loan is to be subject to the following conditions:

1. Interest Rate and Terms of Repayment

This loan shall be repaid by the Government of the Republic of the Philippines within forty (40) years after the date of the first disbursement thereunder, including a grace period of not to exceed ten (10) years. The interest on the unrepaid principal balance of the loan shall be from the date of the first disbursement at the rate of two percent (2%) per annum during the grace period and at the rate of three percent (3%) thereafter.

2. Currency of Repayment

Provision shall be made for repayment of the loan and payment of interest in United States dollars.

3. Other Terms and Conditions

- (a) Services and commodities financed under the loan shall have their source and origin in countries under A. I. D. Geographic Code 941 (Selected Free World).
- (b) Unless A. I. D. shall otherwise agree in writing, prior to the initial disbursement of loan funds, Borrower will submit to A. I. D. for its approval, a statement of the procedures which Borrower will follow in implementing the financing of studies and other eligible services to be financed hereunder.

- (c) At least 50% of the sub-projects to be financed hereunder will include Food and Nutrition type activities (Section 103 of the FAA).
- (d) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Date

A. Recent Economic Developments

In the past two years there has been a sharp increase in the level of economic activity on the Philippines. The growth in real GNP, which had been about 5-6 percent a year for more than a decade, doubled to 10 percent in 1973, and is estimated to be about 7 percent in 1974. The strong recovery in 1973 was led by the international commodity boom and resultant increased export incomes in the Philippines by a strong recovery in agricultural and industrial production for the domestic market, and by an expansion in public and private investment. Underemployment and unemployment remain quite high, however, and in common with most other countries, the rate of inflation increased appreciably in the past 18 months.

The agricultural sector grew by 7 percent in 1973. Rice production in crop year 1973-74 increased by 23 percent over the level of the previous year when flood severely affected output. This increase has been mainly due to favorable weather conditions, increased use of fertilizers, more supervised credit and increased investments in supporting rural services. The Government has moved ahead with its program of agrarian reform for the nation's one million rice and corn farm tenants. By mid-1974, 176,000 land transfer certificates had been issued, mainly to tenants on the larger holdings. The Government now hopes to issue certificates to all tenants on farms above 24 hectares. There is a strong prima facie case for pressing ahead with the program in the 7-24 hectare farm size range.

The industrial sector grew by about 12 percent in 1973. Non-traditional industrial exports, which have been increasing since 1970, are estimated to have doubled in 1973 to about \$200 million. However, industrial exports have been affected by the recent slowdown in the economic of key trading partners, and earnings are expected to level off this year.

The growth in production was also assisted by increased public development outlays in 1973 made possible by a significant improvement in the financial position of the Government. The ratio of public investment to GNP is currently about 3 percent compared with 1.8 percent in FY '72. The Government has implemented a series of long needed tax reform and improvements in tax administration. As a result, the ratio of National and Local Government tax revenues to GNP has increased from an average of 9 percent in recent years to an estimated 12.4 percent in FY '74.

High prices for the Philippines' chief exports, including coconut products, sugar, copper and wood products, were largely responsible for an increase in merchandise receipts of almost 70 percent in 1973. International reserves rose by about \$600 million during the year and stood at \$876 million, equivalent to about five months of imports, at the end of the year. However, since mid-1974, a large trade deficit has appeared, largely because the growth in export prices has moderated but import prices have continued to rise rapidly.

Because of the very good debt management policies of the Government, the burden of medium and long-term debt has declined dramatically. The ratio of debt service payments to export receipts has come down to an estimated 15 percent this year, compared with a high of 27 percent in 1971.

In the latter part of 1973 inflation emerged as a major problem. Since mid-1973 consumer prices have been rising at an annual rate of more than 40 percent. This has been caused by the large increase in liquidity since the export boom began in 1973, and by a number of cost-push factors, including the higher rate of world inflation, domestic food shortages and the increased cost of petroleum. Monetary and fiscal policies have aimed at absorbing the excessive liquidity expansion, and in recent months the rate of inflation has been moderating.

The Energy Crisis

Imported petroleum provides some 97 percent of the Philippines' total energy requirements. In 1973 the equivalent of 71 million barrels of petroleum crude and petroleum products were imported at a cost of about \$230 million c. i. f. When the energy crisis developed late last year, the Government moved quickly with conservation measures to reduce non essential consumption. In 1974 imports of petroleum and products were about 71 million barrels at a cost of about \$780 million c. i. f.

The Government has decided to accelerate the development of local energy sources, especially hydropower and geothermal energy. Supplemented with nuclear

energy in the 1980's, total demand for energy is expected to grow at about 10 percent a year, and even with more rapid development of natural power sources, petroleum would still account for more than 90 percent of total energy needs by 1980.

Growth Prospects

The abrupt deterioration in the external terms of trade since the middle of 1974, and the recession in the economies of key trading partners threatens some of the Philippines' recent economic gains. The labor force continues to grow at 3 percent a year, and although employment has expanded appreciably in the past 18 months, there is still widespread unemployment and underemployment.

Priority is being given to expanding food production for the domestic market, to expanding export production and to accelerating development of local energy resources. In the case of export production, the Government recognizes that the increased cost of petroleum and other imports cannot be financed indefinitely by borrowing abroad. It is actively encouraging both local and foreign investors to expand the productive capacity of export industries and to undertake major new import-replacing investments. The Government is seeking increased support from the international financial community to help carry out its development program and to ease adjustment to higher petroleum and other import prices. Because of the substantial improvement in the external debt burden and international reserve position in the past 18 months, the Philippines now has the capacity to borrow externally larger amounts of capital in support of its development program.

Maintaining a GNP growth rate of about 7 percent a year in real terms during the next few years will depend heavily on the buoyancy of the domestic market. The prospects are for continued expansion in agriculture, with a 4-5 percent increase in production in the year ahead. Continued expansion in public and private investment demand should help sustain industrial output expansion. Increased investments will be needed in a wide range of consumer and intermediate goods industries.

The increased size of the domestic market and growing export demand would seem to justify a wider range of investments during the latter part of the decade in large-scale, capital-intensive industrial products, particularly in mineral-based processing industries where long-term comparative advantage may be strong. A number of big projects are proposed in mining, wood processing, fertilizer, steel and shipbuilding, which are likely to push up the private investment rate from recent levels of about 16 percent of GNP to perhaps 22 percent by the latter part of the decade. A substantial amount of the funds needed for these projects would have to come from external sources. But since the individual cost of many of them will exceed \$100 million, Consultative Group members can play an important role in helping the Government to obtain suitable co-financing arrangements, both with bilateral partners and with the private sector.

The public infrastructure program that was approved last year, which called for outlays of about P 12 billion at current prices in FY '74-77, has become outdated because of the subsequent rapid inflation and by changes in investment priorities as a result of the energy crisis. A new program is being finalized,

with more emphasis on developing nuclear and indigenous power resources and on irrigation, feeder roads and other projects to support increased food and export production. Public investment is likely to increase by about 15 percent a year in real terms so the ratio of public investment to GNP would rise from the present level of 3 percent to about 4 percent by 1977.

The domestic savings rate should rise from an estimated 19 percent of GNP at present to perhaps 20.5 percent by 1977. Foreign savings (i. e., the current account deficit in the balance of payments) would rise from an estimated 2.5 percent of GNP this year to about 4 percent in 1977. This foreign savings gap would decline in the latter part of the decade as the proposed investments in new export and import-replacing capacity begin to bring results.

Balance of Payments

Merchandise export receipts are projected to increase by a total of about 30 percent in the next two years. Import payments are projected to increase by a total of almost 40 percent in the same period, including a 30 percent increase in prices. Under these assumptions, the trade deficit would rise from an estimated \$680 million this year to about \$1,250 million in 1976.

Actual and Projected Merchandise Imports (f. o. b. million \$)

<u>Commodity Group</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
<u>Total</u>	<u>1,597</u>	<u>3,200</u>	<u>3,960</u>	<u>4,610</u>
Cereals	112	194	190	150
Other consumer goods	172	275	330	370
Petroleum products	188	724	830	950
Other raw materials and intermediates	634	1,216	1,610	1,930
Capital goods	491	791	1,000	1,210

Source: 1973, Central Bank of the Philippines; 1974, mission estimate; 1975 and 1976, mission projection.

Actual and Projected Export Receipts
(f.o.b. million \$)

<u>Item</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
<u>Total</u>	<u>1,871</u>	<u>2,520</u>	<u>3,140</u>	<u>3,360</u>
Coconut products	372	606	640	670
Sugar products	295	604	990	830
Forest products	444	330	350	400
Mineral products	319	501	580	730
Other Agricultural products	108	175	210	270
Manufactured exports	230	231	280	350
Non-monetary gold	103	73	90	110

Source: 1973, Central Bank of the Philippines; 1974, mission estimate; 1975 and 1976, mission projection.

Although exports are projected to grow more rapidly than imports in real terms over the next two years, this gain is more than offset by a cumulative decline in the external terms of trade of about 23 percent during 1975 and 1976. This would bring the terms of trade back to the level that prevailed in 1972, thus wiping out the gains made in the recent export price boom.

Actual and Projected External Terms of Trade
(1965 = 100)

<u>Index</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Export price index	149.0	256.0	263.7	257.1
Import price index	149.1	259.1	303.2	337.2
Oil import index	203.0	797.8	848.7	874.2
Non-oil import index	144.1	216.5	259.4	290.5
Terms of trade - total	99.9	98.8	87.0	76.2
- non-oil	103.4	118.2	101.7	88.5

Source: 1973, Central Bank of the Philippines; 1974, mission estimate; 1975 and 1976, mission projection.

B. External Finance

If the projections of exports, imports and external terms of trade were to be realized, the Philippines would require a total foreign capital inflow of about \$2,340 million during 1975 and 1976 to cover the current account deficit and medium and long-term loan repayments.

Direct investment would provide about \$190 million of this. Greater use of short-term trade finance is expected because of the increased oil import bill and generally higher levels of imports. A net inflow of about \$480 million would be in line with the increase in the value of trade being financed. About \$1,080 million could be expected from supplier's credits and other medium and long-term loans to the private and public sector, including about \$280 million from project loans extended by Consultative Group members. The balance of the required capital inflow of about \$180 million in 1975 and \$410 million in 1976 would have to come from other borrowings. The Central Bank could finance the entire deficit by short and medium-term borrowing while maintaining or even increasing the level of international reserves. Net reserves, however, would be negligible by 1976.

The recent important gains in reducing the external debt burden and improving the external reserve position should not be lost now by excessive recourse to short and medium-term borrowing by the banking system. However, there is considerable scope for additional medium and long-term loans from donors to finance capital goods imports which are projected to reach \$1.2 billion in 1976.

In the months ahead, the Government and aid donors alike should explore this possibility. If these efforts are unsuccessful, the Government would have to reassess its growth strategy for 1976.

Summary Balance of Payments
(million \$)

<u>Item</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974^{/a}</u>
<u>Current Account</u>	<u>-29</u>	<u>+9</u>	<u>+11</u>	<u>+475</u>	<u>-450</u>
<u>Trade Account (net)</u>	<u>-7</u>	<u>-37</u>	<u>-151</u>	<u>+274</u>	<u>-680</u>
Exports	1,083	1,149	1,109	1,871	2,520
Imports	1,090	1,186	1,260	1,597	3,200
<u>Service Account (net)</u>	<u>-141</u>	<u>-88</u>	<u>-26</u>	<u>-30</u>	<u>-40</u>
Receipts	258	264	376	582	805
Payments	399	352	402	612	845
<u>Transfers (net)</u>	<u>+119</u>	<u>+124</u>	<u>+188</u>	<u>+231</u>	<u>+270</u>
Official	26	31	36	63	70
Private	93	103	152	168	200
<u>Capital Account (net)</u>	<u>+181</u>	<u>+124</u>	<u>+174</u>	<u>+210</u>	<u>+355</u>
Direct Investment	-29	-4	-22	64	80
Short-term private capital	76	92	56	74	180
Medium- and long-term private loans	94	-34	-17	-5	-10
Medium- and long-term public loans	40	70	157	77	105
<u>Errors and Omissions</u>	<u>-147</u>	<u>-144</u>	<u>-106</u>	<u>+16</u>	<u>+20</u>
<u>Overall Balance of Payments</u>	<u>+5</u>	<u>-11</u>	<u>+79</u>	<u>+701</u>	<u>-75</u>
<u>Monetary Sector, Reserves etc. (net)</u>	<u>-5</u>	<u>+11</u>	<u>-79</u>	<u>-701</u>	<u>+75</u>
Central Bank liabilities	58	4	-64	-86	+443
Central bank assets	-150	-125	-174	-488	-500
Commercial bank liabilities (net)	35	94	130	-106	+190
SDR's	18	17	16	-	-
Use of IMF facilities	14	21	7	-21	-58

Source: Central Bank of the Philippines.

^{/a} Mission estimate.

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