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AGENCY FOR INTERNATIONAL DEVELOPMENT
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PROJECT PAPER

THE PHILIPPINES

THE PHILIPPINES MARKETS

492-0365

AUGUST 1982

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4): A. Initial FY 82 B. Quarter 4 C. Final FY 84

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

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. Total	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. Total
AID Appropriated Total						
(Grant)	(200)	(3,800)	(4,000)	(800)	(20,200)	(21,000
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	200	3,800	4,000	800	20,200	21,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) ESF	130	120				21,000		21,000	
(2)									
(3)									
(4)									
TOTALS						21,000		21,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 250 510 270

11. SECONDARY PURPOSE CODE:

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	BU					
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To provide ESF funds resulting from the Amended Military Bases Agreement of 1947 to assist the GOP to improve market operations and construct/rehabilitate such facilities throughout the Philippines.

14. SCHEDULED EVALUATIONS: Interim MM YY MM YY — Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [X] 000 [X] 941 [X] Local [X] Other (Specify) 935

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

17. APPROVED BY — Signature: Anthony M. Schwarzwalder — Anthony M. Schwarzwalder — Title: Director, USAID/Philippines — Date Signed: MM 07 DD 27 YY 84

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TABLE OF CONTENTS

List of Tables/Figures

List of Annexes

LIST OF ABBREVIATIONS

CDC	Cash Disbursement Ceiling
COA	Commission on Audit
CP	Condition Precedent
DBP	Development Bank of the Philippines
ESF	Economic Support Fund
GOP	Government of the Philippines
GSIS	Government Service Insurance System
HSRC	Human Settlements Regulatory Commission
IAFC	Inter-Agency Finance Committee
IBRD	International Bank for Reconstruction and Development (World Bank)
IRR	Internal Rate of Return
LBP	Land Bank of the Philippines
LGU	Local Government Unit
MAC	Management Advisory Committee
MDF	Municipal Development Fund
MMA	Metropolitan Manila Area
MOB	Ministry of Budget
MOF	Ministry of Finance
MHS	Ministry of Human Settlements
MHS/MPO	Ministry of Human Settlements/Markets Program Office
NBC	Net Borrowing Capacity
NEDA	National Economic Development Authority
PID	Project Identification Document
PNB	Philippine National Bank
PP	Project Paper
Secretariat	Development Projects Fund Secretariat

PROJECT PAPER

MARKETS

I. SUMMARY AND RECOMMENDATIONS

A. RECOMMENDATIONS:

It is recommended that a grant of $21,000,000 be authorized from Economic Support Funds (ESF) to the Government of the Philippines (GOP) for the Markets project. The total FY 82 obligation will be $4,000,000.

B. PURPOSE

The purpose of the project is to provide ESF funds resulting from the amended Military Bases Agreement of 1947 to assist the GOP to improve market operations and construct/rehabilitate such facilities throughout the Philippines.

C. DESCRIPTION

The project will support market improvements in up to 72 cities and municipalities with populations of 40,000 or more. New facilities will be constructed and old markets will be renovated and/or enlarged. Approximately 110,000 square meters of new or improved market space will be provided. In addition, improved systems for market management and financial accounting will be introduced at each participating city or municipality. The three major project components are: (1) technical assistance, (2) credit, and (3) training. The combination of management assistance, training and infrastructure will reduce current poor market administration and the number of inadequate, unhealthy facilities, thereby contributing to a more efficient, competitive market system.

D. SUMMARY OF FINDINGS

The analyses undertaken during project development conclude that the project is feasible and that sufficient planning has been undertaken for implementation to begin. Specific findings are:

1. Markets in the Philippines are a pivotal link between urban consumers and rural producers. They are a center of private economic activity. Traders within the market are highly competitive with the result that prices are very responsive to market factors.

2. Markets are important factors in the GOP's growth center and national livelihood development strategies.

3. There is a severe shortage of adequate market facilities throughout the Philippines. Most facilities are over 30 years old and many are in a severely dilapidated condition. Inadequate facilities and severe overcrowding have resulted in reduced efficiency of essential marketing functions in many areas.

4. In larger cities and municipalities, the operation of a market(s) is viewed by local officials and the population as a required public service; further, key officials believe markets should breakeven or be a small net generator of revenues.

5. The Markets project will be implemented in most of the 12 Philippine administrative regions outside Manila; it will have an impact on the low income population, the majority of whom buy or sell at markets.

6. The GOP has endorsed this project at several levels: the President, certain members of the Cabinet, the Management Advisory Committee (MAC), the Ministry of Human Settlements (MHS) and many cities and municipalities.

7. The project implementation process will assure established engineering designs and technical standards. General cost estimates used in this Project Paper (PP) are sufficiently accurate at this stage of design to proceed with detailed market decisions; more data and extensive analyses are required for subsequent subproject[1/] approvals.

8. The GOP has the management and technical capability to implement the project.

9. An economic analysis indicates a very satisfactory economic internal rate of return (28 percent) may be expected from the project.

E. IMPLEMENTATION

The GOP will be the Grantee; the executing agency will be the MAC, through its Development Projects Fund Secretariat (the Secretariat). Selected cities and municipalities (local government units (LGUs), in conjunction with the MHS Markets Program Office (MHS/MPO), will implement the project.

F. STATUTORY REQUIREMENTS

All statutory requirements have been met.

1/ A subproject is defined as the improvement(s) and/or expansion(s) of an existing market(s) and/or construction of a new market(s) within a single municipality or city for which a single loan is made.

G. ISSUES

All Project Identification Document (PID) issues have been satisfactorily addressed. The proposed Implementation Plan, Part IV of the PP, discusses in detail the remaining administrative concerns and proposals to address them during project implementation.

II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. BACKGROUND

1. General

On January 7, 1979, the U.S. and Philippine governments concluded renegotiations on the 1947 Military Bases Agreement by signing an amendment to that agreement which stipulated, inter alia, that certain lands of Clark Air Force Base and Subic Naval Base would be returned to the GOP jurisdiction. The Executive Branch of the United States Government also made a "best efforts" commitment to secure from the U.S. Congress, during the period FY 1980-1984, $200 million of economic assistance to the GOP in the form of ESF.

ESF assistance may be provided in a broad range of ways, but after consultations with the Congress, AID concluded that projectized assistance which addressed development concerns to the maximum extent feasible would be the best approach. This decision was well received by the GOP which established the MAC (representing all GOP ministries and agencies with any interest or relevance to the program) with its own Secretariat to handle projectized ESF assistance.

AID agreed to a system of annual dollar transfers based upon estimation of the requirements of the local cost components, which would be funded with the GOP's own appropriated pesos. The system was approved by AID for the first ESF Project (Elementary School Construction, 492-0342) and has continued in subsequent ESF projects. It is the system which is followed in this project.

The Markets project is set forth in support of a GOP-managed fund. This fund approach was chosen because it is consistent with the U.S. Government's overall ESF strategy and with the concept that GOP-owned pesos are being used to implement subproject activities. The fund concept places responsibility for subproject execution squarely on the GOP implementing agencies while giving AID a joint role with the GOP in structuring the criteria and procedures the GOP will use in designing and implementing subprojects. The fund is an extremely useful mechanism, for both AID and the GOP, to group into a single project

a range of Philippine-initiated activities. By using the fund, AID can support, via an annual ESF dollar transfer to the GOP Treasury, additional GOP development activities which the Philippines would not otherwise be in a position to finance, and which AID would not be in a position to manage as separate projects. Additionally, AID monitoring attention can be focused on the process by which the Secretariat, the MHS/MPO and LGUs plan, organize, finance, implement and maintain local projects.

In the case of Markets, AID has elected not to monitor all the details of subproject implementation, but to a major extent to rely on the capacities of existing institutions. Use of the fund concept does, however, insure AID a "seat at the table" in deciding the approaches, criteria and procedures by which the subprojects are carried out. While AID will exercise limited subproject monitoring responsibilities, it will be concerned with the effectiveness of the existing institutional arrangements. Using this approach, subproject monitoring will not be an unmanageable work item for AID.

The Markets project will be capitalized in two ways. First, AID will hold in reserve, on behalf of the GOP, an amount of $0.8 million to be used for foreign exchange costs. This $0.8 million will be disbursed using traditional Letters of Commitment/Letters of Credit or other appropriate mechanisms in support of foreign technical assistance and overseas training. Second, the GOP will appropriate pesos to be allotted to the fund, under the stewardship of the Secretariat for selected market subprojects. In exchange for this allotment of additional pesos for the Markets project, and in exchange for the GOP agreeing to certain terms and conditions on the use of these funds (e.g. AID monitoring, approvals and audit rights), as contained in an executed bilateral project agreement, AID will support the local cost components of the fund via annual dollar disbursements to the GOP Treasury. This procedure is fully described in Part IV, Project Plans, A., Implementation Plan, of this paper.

The capitalization of the fund will result in market subprojects throughout the Philippines. The Markets project does not have as its primary purpose institutional development per se. However, since both the GOP's national Markets Development Program and LGUs will have significant additional resources at their disposal gains in institutional capacity to plan, coordinate and implement development subprojects are expected. While this is viewed as a secondary benefit of the Markets project, it is considered important.

2. The Role of Philippine Markets

The distribution of food and other consumer goods in the Philippines is handled almost totally by private entrepreneurs operating in a free enterprise environment. Markets play a central role in the complex socio-economic milieu of urban areas and their associated supply and distribution hinterlands. This is especially true of lower income consumers and traditional farmers. Clearly, markets are a pivotal element in the existing distribution systems. The efficiency of the market system is determined, in part, by the efficiency and effectiveness of these markets.

Simply stated, markets provide space in a central location for private buyers and sellers to exchange goods and services. Public agencies have tended to construct and operate the markets in the Philippines because of (a) deeply intrenched historical and cultural perceptions that markets are a government service, similar to a port authority, railway station or airport facility in the U.S., (b) an actual or perceived fear by private investors that they cannot obtain a satisfactory return from the construction and operation of markets, because of their inability to capture market externalities (i.e., indirect taxes, increased entrepreneurial development, market arbitrage, etc.), (c) the availability of "better" investment opportunities for the limited resources of the private sector, and (d) an actual or perceived fear by legislators, national GOP agencies and LGUs that markets would not otherwise be operated in the public interest. Whether the market is publicly or privately managed, its role is sufficiently important that it is subject to close scrutiny and regulation by public authorities. In general, the type of ownership and management of a market does not materially change its role and performance.

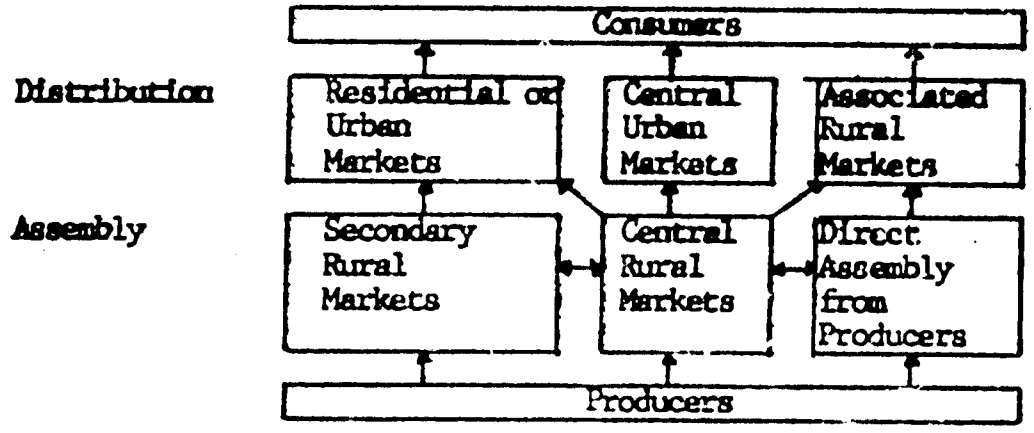
3. The Economic Functions of Philippine Markets

The Philippine marketing system performs allocative and pricing functions as goods and services move from producer to consumer through a series of 7,100 islands. The geographic reality of the Philippines handicaps price information and product flows. Poor roads, limited cold storage and truncated market regions combine to place great emphasis on rural market functions. The number of steps (or levels) in the Philippine marketing chain may be few, such as a producer selling directly to a consumer, or many, such as a producer selling to a merchant who stores and transports the goods before selling to another merchant, who has a stall convenient to the local consumer. The efficiency with which the Philippine marketing system performs these functions is critical to the development process and the private sector orientation of the economy, and is a major determinant of the economic and social well-being of the population. Through more efficient market functions, farmers and other suppliers may receive higher prices, consumers may pay lower prices, and merchants, truckers and other suppliers of marketing services may receive better returns.

Philippine markets are the most conspicuous places of exchange. Their impact goes far beyond the transactions that occur within their boundaries. In fact, because of their nature, they form the basis for most commodity movements and prices throughout the total marketing system, especially for the more traditional and perishable products. This occurs because of the relationships (1) between markets and (2) between individual buyers and sellers in the service area of each market. In general, consumer purchasing decisions are very dependent on prices used in markets and market prices are often used to set relative prices throughout the entire distribution system, regardless of where the transactions actually take place.

The nationwide and regional relationship between markets is generally hierarchical with the relationships differing by type and source of product. The usual Philippine product movements to and through markets is shown below.

Typical Philippine Market Hierarchy for Non-Local Products



Philippine markets, particularly markets in larger rural centers, encourage competitive efficiency in a multitude of ways. For example,

a. Competition among a large number of small vendors, traders and producers encourages prices related to costs and to normally accepted marketing returns.

b. If a marketing function can be done with less cost (per unit), there is a strong incentive for each vendor to reduce prices. The first vendor doing so gains additional revenue. Subsequent vendors drive the price down as they give up most or all of their savings. Finally, vendors who are not efficient are driven from the market.

c. Price discovery is fairly easy because of the near universal knowledge that market prices are the most competitive available.

d. Supplies tend to be related to expected demand as sufficient vendors have the option of increasing, decreasing or skipping each market.

e. Demand tends to be sufficiently large to clear supplies within an acceptable time period. Prices can be raised or lowered if supplies are disappearing too fast or too slow, respectively.

The Philippine competitive marketing system allocates the available commodities/products between the consumers over distance, time and form. In doing this, it uses price and supply and demand forces to provide the necessary incentives or disincentives. Ideally, this system, operating efficiently should supply just the right quantity of the right type of commodity/product at the right time to the right consumer in each market throughout the system. (See Annex H, Technical Analysis, for a more detailed market systems presentation).

4. Additional Benefits of Improved Markets

Consumers are major beneficiaries of improved markets. For example, there is generally (1) an improved selection and quality of goods, (2) a decrease in shopping costs due to increased convenience and other time savings, (3) improved public health with less risk of disease and accident, and (4) an improved quality of the shopping experience through a better market environment.

Markets contribute to employment in relatively labor intensive transportation and marketing activities. They encourage the diffusion of entrepreneurial skills and they improve the social and economic interaction among beneficiaries. The appropriate location and design of markets can help to alleviate existing and future urban congestion. The Philippine market system contributes to the expansion of private commercial activities. These include retailing, wholesaling, food processing, storing and packaging, and a number of commercial activities which cluster around markets.

5. Markets in the Philippine Development Plan

Markets link urban centers with their rural hinterlands and are an important factor in development strategies based on the growth center" and "urban functions in rural development" approaches. This approach is based on the idea that rural development can be facilitated by focusing investment on key functions in carefully selected centers. Key functions include: (1) the provision of agricultural inputs (credit, extension, market information, fertilizer, seed, pesticides, tools, etc); (2) post harvest transport, storage, packing, grading, processing; (3) markets for rural products; and (4) socio-economic services such as retailing, communication, social interaction, health care,

education, transportation, and administration. Criteria which have been used to select the "growth centers" for concentrated investment include: (1) central location within agricultural regions with potential for development, (2) growth potential exhibited by past growth, (3) well served by transportation trunk lines, (4) qualified and committed local leadership, and (5) physical characteristics and basic infrastructure conducive to future development. The population size of the centers selected may vary from 5,000 to 500,000 depending on the specific needs of the region. Whereas extension and weekly marketing functions may be provided most efficiently by small centers, agri-processing investments might focus on large regional centers. In many cases, such as in the Philippines, centers in many different size classes are selected for investment so that an integrated hierarchy of centers can be developed.

The Philippine Five-Year Development Plan, 1983 to 1987, adopts a regional development framework based on the growth center approach. Its aim is to shift development away from Manila and to achieve a more equitable regional distribution of development by focusing on selected growth centers (Annex E). Growth centers were selected after analysis of their projected population for the year 2000, geographical centrality, transportation factors, and site characteristics. They include 15 regional centers, 6 sub-regional centers, 58 major urban centers and 108 minor urban centers (See Table 1, Identified Growth Centers).

Improvement of markets in these centers will help them to achieve their full growth center potential and thus contribute to the development of surrounding hinterlands. More efficient markets will mean better prices and less hassle for farmers, facilitate shopping for rural residents, and also fulfill some communication and social interaction functions.

6. Existing Condition of Markets in the Philippines

The critical role of markets in the development process has already been discussed. Unfortunately, markets in most of the identified growth centers are old and inadequate for the needs of the developing urban and rural sectors. In many cases, market facilities are maintained inadequately and sanitary conditions are poor. Most markets are over-crowded; the demand for space generally outstrips availability. The generally poor condition of facilities is exacerbated by administrative weaknesses. The lack of managerial and technical expertise affects both the operation of public markets and, perhaps more importantly, the ability of LGUs to obtain market financing. This combination of factors restricts the construction of new, efficient markets as well as the renovation of existing markets. Thus, markets in growth centers are not meeting their developmental potential.

7. Markets and Local Government Revenues

Some LGUs generate a significant portion of their gross local revenues from the market operations. In a sample of these LGUs, markets contributed gross receipts ranging from a low 10 percent to a high of 55 percent of all locally raised revenues. (See Table 2, LGU Revenues, Column F). However, accounts for markets are generally not kept separately from other LGU activities. Consequently, it is difficult to determine net market revenues without accurate information on the total expenditures of these markets. Additionally, local economic and political influences, particularly in the absence of accurate financial data, affect the setting of fee levels and market collections.

Inadequate market accounting and management systems, and crowded, old and poorly maintained facilities contribute to unnecessarily low fee schedules which may not cover expenditures. The problems of inadequate facilities and poor administration are compounded by the absence of a single integrated strategy and program to set and enforce standards and provide technical and financial support for local markets as needed. The above problems, notwithstanding, with administrative improvements and upgraded infrastructure, markets could be operated to assure, at least, breakeven/self-sustaining operations. This would enable markets to fulfill their developmental and commercial requirements for small vendors/producers while not creating LGU dependency on market revenues or supplanting larger private sector commercial initiatives.

8. Reasons Behind the Existing State of Markets

The inadequacy of the existing situation was documented in a recent study of the loan experiences of the Development Bank of the Philippines (DBP), the Land Bank of the Philippines (LBP), and the Government Service Insurance System (GSIS) with LGUs[1/]. One significant conclusion of that study is that few LGUs requiring new or improved markets have sought financing (See Tables 3,4, and 5, Loans to LGUs by DBP, LBP and GSIS). Based on data analysis, field interviews and case studies, the following explanations were made:

a. LGUs do not have the experience or technical expertise to prepare the detailed feasibility studies and financial information required for loan consideration.

1/ Diokno, B. "Local Public Enterprises in Developing Countries: Issues and Practices", University of the Philippines, School of Economics, December 1981.

b. There is a complex set of bureaucratic compliance procedures, involving several GOP agencies, which both frustrates local officials in their pursuit of loan financing and causes serious delays in the loan approval process.

c. Procedures are fragmented, which mitigate against lenders establishing specialized staffs to provide technical assistance to LGUs for market operations and construction.

d. A combination of the conservative application of the net borrowing capacity (NBC) requirement by the Ministry of Finance (MOF) and Commission on Audit (COA), loan terms that are far shorter than asset life (10 years), and high interest rates (20-23%) have disqualified some LGUs and discouraged others from applying.

It is concluded that Philippine markets are: (1) generally congested, old and dilapidated, (2) inadequately maintained and cleaned, (3) provide less than healthy conditions for food distribution, and (4) because of inadequate accounting procedures, yield unknown net financial returns to the LGU. Markets are not fully contributing to the marketing system and development of the Philippines due to limitations in the existing procedures by which markets qualify and receive financing.

B. DETAILED DESCRIPTION

1. General

As a response to the situation described in Part II.A, the project will facilitate the introduction of a national GOP program in selected cities and municipalities of market improvement through technical assistance, training and new construction or renovation. The Markets project will use ESF funds to materially assist this program which will further strengthen the competitive market system of the Philippines.

The project will exclude LGUs eligible for support under the ESF financed Municipal Development Fund (MDF) Project and in Metro Manila. Specifically, the project will support new markets/market improvements in up to 72 1/ LGUs already identified by extensive GOP analysis as key growth centers. The project will fund up to 100 percent of the costs of approved construction, site improvements, rehabilitation, training and required technical assistance in these jurisdictions. An estimated $800,000 in

1/ Loans to LGU's must be equal to or exceed the peso equivalent of $250,000. (See III.B.2, Selection Criteria, page 13, for further explantion.) $18.0 million has been budgeted in support of the credit component; hence, if all loans were of minimum size, 72 LGU's would benefit from the project.

foreign exchange costs has been set aside to possibly finance expatriate technical assistance and foreign training. The remaining $20.2 million will be disbursed to the GOP Treasury in support of approved local costs. (Peso equivalent of $18.0M is estimated for credit; $1.5M equivalent for local technical assistance; and $0.7M equivalent for local training.)

The primary objective of the GOP program which AID is assisting is to improve the market facilities and their operation in selected growth centers. More efficient marketing systems, along with other developmental efforts, will facilitate development in these growth centers and their adjoining hinterlands. The strategy is to provide efficient markets in already identified growth centers, which have been further ranked by other established developmental criteria. As markets are associated with numerous economic activities, a decision hierarchy will be employed to allocate limited project funds. This strategy is also complementary to the implementation strategy associated with the GOP's National Livelihood Movement [Kilusang Kabuhayan at Kaunlaran (KKK)] program. The KKK, as a primary GOP development program (encompassing many ongoing GOP supported activities), is a ₱2 billion ($242.5 million) national livelihood movement interded to help the population in 42,000 barangays develop more productive enterprises. Markets are viewed by the GOP as an important element in assuring proper and timely distribution of increased production, which can contribute to the ultimate success of the KKK program.

The second objective is to assure that participating LGUs operate markets on a breakeven or self-sustaining basis. Markets will be financially viable on their own, not drawing on or unnecessarily augmenting LGU net revenues. For some LGUs, with a growth center service area population of 50,000 or above, markets can generally be operated in a breakeven or self-sustaining mode. The strategy is to develop the capabilities of these LGUs to plan, administer and maintain these commercial service utilities (markets) through an improved system of sound management, staff efficiency, and new and rehabilitated facilities.

The third closely related objective is to introduce an integrated strategy and program of training, technical assistance and credit for markets; this also demands significant LGU participation. This participation is consistent with the GOP's interest in decentralization and local decision-making, in controlling local resources, and in improving the capacities of LGUs to manage local utilities and improvement programs. A fourth objective is to foster a more efficient allocation of scarce GOP resources. The project is supporting and developing a review procedure, with high standards for individual feasibility studies,

to encourage appropriate subproject choices and effective project implementation. Concurrent with this decision process is the introduction of a system of cost accounting which will be applied to markets financed by this project. A financial management system that properly measures expenditures, sets rates and determines net revenues, can improve overall decision-making, generate a more cost-conscious management behavior and facilitate correct performance monitoring of markets. It is anticipated that the improved management system developed will "spillover" to other LGU utility operations and to neighboring LGUs not directly affected by the project.

2. Description of Project Components

a. Technical Assistance ($2.0 M)

Technical assistance for program implementation is needed by GOP officials (LGU and MHS/MPO) to improve their administrative skills in the operation, conceptualization, design, and financial managment of markets. Technical asistance of various types is needed to assist in activities from subproject identification through construction of markets and, subsequently, to help in the administration and operation of the market. The required assistance includes urban and regional planning, land economics, construction engineering, finance and accounting, environmental health, sanitary engineering, public administration, etc. To assist the GOP in program implementation, this project component will have four technical assistance elements: (1) overall project guidance and regional, urban and land use planning; (2) financial and economic analysis; (3) architectural and engineering design; and (4) management and accounting systems.

The identified needs of the national Markets Development Program and each participating LGU will be responded to by the MHS/MPO. Technical assistance will be provided to MHS/MPO for: (a) further preparation of a market section in the appropriate GOP development plans; (b) preparation of a detailed feasibility study and physical facility design; (c) introduction of an effective and efficient cost accounting and management system; and (d) operations review and monitoring. The project will utilize Philippine private sector expertise and skills, as well as expatriate consultants as necessary.

b. Credit ($18.0 M)

This takes the form of concessional loans (9%) from the Secretariat to qualified growth center LGUs for the purpose of financing the construction of new markets, and/or the upgrading or expanding of existing market facilities. This component addresses the problem of capital availability for LGUs requiring new markets due to undersized and inadequate facilities. (See page 37 for detailed discussion of loan terms.

c. Training ($1.0 M)

This component, in conjunction with the technical assistance component, also responds to the need for technical and managerial upgrading at the MHS/MPO and LGU administrative levels. It consists of manpower training, information sharing, applied research and evaluation activities. Training will be provided by MHS/MPO and its consultants at the subproject site and through regional conferences, national forums and overseas tours.

III. PROJECT ANALYSES

A. FINANCIAL ANALYSIS

1. General

For the most part, the financial viability of the Markets Project is dependent upon the financial viability of each subproject. A feasibility study, which includes a financial analysis, will be the basis for subproject approval and funding. Moreover, the financial projections shown in Tables 11 and 12 (Statement of Projected Minimum Rent per Square Meter per Month for Market Prototypes A through I for the First Year of Operations, and For Market Prototype D for Years ending December 31, 1983 to December 31, 1992), indicate that general subproject prototypes are financially viable. As a similar methodology will be used for each subproject feasibility study, it is concluded that the Markets project is financially viable.

2. Selection Criteria

Projected demand for credit assistance to fund markets far exceeds the $18.0 million equivalent programmed by the GOP. Therefore, a selection process will be employed. This selection process will address GOP development goals, ease of project implementation and subproject financial viability. The major criteria for LGUs seeking loan assistance under the Project follow:

a. The LGU must be identified by the GOP as a "growth center." (See Table 1, Identified Growth Centers). The appropriate development plans of the GOP and the LGU will indicate that the market is a development priority. (The subproject feasibility study will specifically cite the development plan.).

b. The minimum subproject construction cost will be $250,000 or approximately ₱2.0 million. Given the $18.0 million credit component, feasibility studies for up to seventy-two (72) subprojects could be developed, analyzed and evaluated by the MHS/MPO. Only in exceptional cases of merit will the Secretariat, with prior USAID approval, finance smaller subprojects.

The Secretariat and USAID agreed on a minimum subproject cost due to the following:

(1) The disproportionate technical assistance expense required to evaluate, design and construct smaller subprojects.

(2) The limited financial viability demonstrated, in general, by smaller markets.

(3) Reduced GOP staff required to implement the project by limiting the number of subprojects.

The above conditions limit the LGUs that qualify for loan assistance to those with populations of approximately 40,000[1/] and over. (See Annex F, Computation of Minimum Service Projection, for computation.)

3. Financial Viability

A significant factor that will determine subproject loan approval is the projected or estimated financial viability of the subproject. Subproject "financial viability" is defined as the ability of each subproject to generate adequate revenues from rents each year to, at minimum, meet operating expenses, cash, principal payments and other expenditures that require cost outlays. In short, at a minimum, a subproject will have to project a breakeven operation, i.e., fund inflows must be greater than or equal to fund outflows each year.

The breakeven approach to financial viability was selected over other approaches such as internal rate of return, cost benefit, etc. for the following reasons:

a. It focuses on the ability of each subproject to operate as a self sufficient cost-center within the LGU both in the short and long run.

b. It provides for the repayment of principal and the payment of interest by the LGUs to the GOP, thereby providing the GOP with continued financial resources.

4. Break-Even Projections

The methodology utilized in Tables 11 and 12 is based on the requirement that the minimum average rent per square meter per unit of time be equal to or greater than the average cost per square meter for a like unit of time. A similar methodology will be used for each subproject feasibility study.

1/ LGU population as enumerated in the last Census. However, the population of the service area would approximate at least 50,000.

For measurement purposes, one year breakeven financial projections are made for nine market prototypes; for one prototype, a 10 year projection is illustrated (See Table 12).

The minimum rent to be charged per square meter in order that a market operation breakeven under the assumed conditions ranged from approximately ₱23 to ₱32 per month for all prototypes in the first year of operations assuming full occupancy[1/] and seventy percent (70%) occupancy respectively.

It can be expected that full occupancy will not be reached until the fourth year of a subproject. The LGU will, therefore, have to (1) balance the new operation by increasing rates at other fuller occupancy markets in the initial years and/or (2) recapitalize interest payments and/or shift the burden of the early years operational shortfall to the original tenants. Regardless of which alternative is used by the LGU, the rent charges are comparable to or below those currently charged by most markets. Present market fee schedules, for a market with a service population of 50,000 or more, open seven days a week, range from ₱1 to ₱1.50 per m^2/day or approximately P30 to P45 per m^2/month. This revenue range, however, decreases to approximately ₱22 to ₱35 per m^2/month for a market open five days a week, regardless of service population size. Accordingly, the ability of LGUs to increase market rents and business days will be an important consideration in subproject financial viability.

So that the projections in Tables 11 and 12 will be correctly interpreted, significant assumptions are highlighted. As a basic project premise, it is considered that three hundred (300) persons support one market stall. This is a standard set by MHS's Human Settlements Regulatory Commission (HSRC)[2/]. The funding of a subproject is based totally on the population of the LGU. A market's clientele, however, will extend to the surrounding areas (urban and rural attachments to the LGU or nearby communities). As such, the number of persons supporting a stall by this analysis will be higher than three-hundred (300), increasing the likelihood of market success.

All figures used are derived from existing analyses of markets professional judgements by several AID and GOP consultants and MHS/MPO, Secretariat, USAID and LGU staffs.

1/ Defined as ninety five percent (95%) of capacity.

2/ HSRC is charged with the formation and implementation of land use laws, the enforcement of public facilities protective decrees and urban land reform. AID funded consultants reviewed this 300 figure and considered it to be extremely reasonable.

5. Operating Expense Projections

In general, market expenses can be identified as either controllable or non-controllable. Controllable expenses are normally subject to direct regulation at a given level of management authority. They are limited to the operating expenses and usually consist of salaries/wages, employee benefits, sanitation, utility, insurance, office supplies and materials, maintenance and miscellaneous expenses.

A standard LGU employee to area (m^2) ratio of 1:20 and the usual GOP benefit packgage are used to compute salaries/wages and employee benefits. This is a high ratio estimate and by being used uniformly for this analysis does not take into account economies of scale as the market size increases. These expenses, however, will be computed for individual subprojects feasibility studies by developing detailed staffing patterns and organization structures appropriate for market size and volume, and relating the actual compensation package to that offered to that job class. This will provide a better basis for evaluation and also for later controlling the expenses. It will also help in cost center identification should more than one market exist within a LGU.

The compensation package offered various classes of employees is defined by the GOP and LGU. The importance of the administrative analysis of subprojects' feasibility study suggests that the LGU's be open to reclassifying position levels to attract qualified people for less desirable jobs or be willing to contract out market operations to a private management firm, if necessary.

Market utility costs are normally the responsibility of the market administrator. Some administrators recover such expenses fully or partially through rents, while others account for and recover such expenses as a separate charge. The subproject feasibility study, however, will use the latter method and provide a method for passing communal utility expenses on to the ambulent vendors.

Other expenses such as insurance, office supplies and materials, maintenance, garbage removal, cleaning supplies, utility (administrative) and miscellaneous expenses are estimated based on operational experience.

Many markets are unsanitary, unhygienic and unhealthy due to inadequate drainage and garbage removal systems and inadequate funding of necessary repairs. As nutritional and health improvements are a major consideration for this project, the adequacy and/or improvement of drainage and garbage removal services will be a prerequisite to subproject recommendation by MHS/MPO and approval by the Secretariat. Furthermore, internal LGU mechanisms will be established to charge a reasonable fee for the garbage removal services rendered. In addition, the design of the markets will provide for efficient garbage accumulation, storage and disposal.

6. Maintenance Costs and Sinking Fund

Presently, many necessary market repairs are postponed or neglected by most LGUs due to unavailability of funds. Subproject loan agreements will carry a covenant requiring that a sinking fund be set up to ensure that adequate repair funds will be available when necessary. Use of this fund will preserve and increase the useful life of the physical structures. The sinking fund, maintained by the LGU, will require total annual contributions equivalent to one percent (1%) of total subproject cost exclusive of land. The total fund accumulation will not exceed eight percent (8%) of the total subproject cost. Interest earned on the sinking fund will remain in the sinking fund. Any interest earned which causes the fund to be greater than the prescribed maximum, will become general income to the market. As a general rule, all repairs in excess of ₱5,000.00 should be financed through this sinking fund.

7. Uncontrollable Expense Projections

Interest, principal payment and repairs (from the sinking fund) are expenses that are not directly influenced by a manager within a given time span. They are uncontrollable expenses. Interest and principal payments are determined by the amount of the subproject loan, which in turn is determined primarily by the LGU's NBC and population, and the market size and improvements. The sinking fund for repairs, on the other hand, is a subproject loan covenant.

Loans made available to LGUs will bear a concessionary interest rate of nine (9%) per year, over a twenty-seven (27) year term. The note will require monthly payments and provide a maximum two (2) year grace period on principal payments. Interest will be due on a semi-annual basis, beginning to accrue immediately upon subproject completion and acceptance by the LGU. Construction period interest will be capitalized and become part of the subproject loan. Subproject loans will also carry the following covenants: Each subproject will be reorganized as a separate cost center within the LGU; its management, accounting, record-keeping, etc. will be separate and distinct from other LGU operations; insurance coverage, in the initial amount of the subproject loan, will be required.

8. Conclusion

The Markets project is financially viable based on subproject projections. This viability is especially apparent with respect to larger markets open seven days a week with an average daily occupancy rate of seventy percent (70%) or higher given the current market fee structure (₱1 to ₱1.50 per m^2/day) and the loan terms (nine percent (9%), twenty seven years, with an initial two (2) year grace on principal payments).

B. SOCIO-ECONOMIC ANALYSIS

1. Introduction

The socio-economic analysis of the Markets project concludes that new and improved markets will produce benefits in excess of their costs. (Annex G, Socio-economic Annex, fully describes the analysis, methodology and findings that follow hereafter.) When only using those economic benefits which are easily quantified, the internal rate of return (IRR) to the project is computed to be 28 percent. Even allowing for 25 percent underestimation of construction costs or a 20 percent overstatment of benefits, the computed IRR is still 23 percent.

Markets are an essential part of the infrastructure required to support the flow of goods and services from producers to consumers. They represent a convenient central location for private vendors to perform valuable competitive market services. In fact, they are an essential component of support for the free market network of small private traders and producers in the Philippines. By improving markets, this network, will be strengthened. At least for the foreseeable future, the market network in the Philippines represents the most efficient and least expensive method of distribution in urban and rural areas. This is particularly important to lower income groups.

2. Conceptualizing the Economic Analysis

The socio-economic analysis, prepared by a US consulting firm, Agros, is concerned with the incremental impacts on the Philippine economy of the project. At an abstract level, markets contribute certain identifiable and measurable economic services. The value of these services is the amount the consumers of these services are willing to pay for them.1/ Whether or not the full amount is monetized (paid) is irrelevant to this socio-economic analysis, as specifically compared to the preceeding financial analysis. After allowing for the cost of providing these services, economic benefits are produced. It is this incremental change that results in this project having a valuable economic benefit.

1/ Markets, as one part of the Philippine marketing system, produce value by adding spatial, temperal, form and possession utilities (value) to goods and services. The consumers of these utilities, in accordance with their demand, plan for these services. New and improved markets will result in the provision of a higher level of these services. The intersection of the resulting supply and demand schedules will determine the value of the new level of services relative to old level of market services.

The construction, operation and maintenance of new and improved markets involves additional costs. These costs tend to lead the resulting flow of benefits. Consequently, it is necessary to adjust for the time value of money. This analysis employs IRR analysis, where the incremental benefits for each of 25 years are equated to the incremental costs by use of a discount rate. (25 years is used even though markets traditionally have a usable life in the Philippines of over 30 years. The loan terms used in the financial analysis (27 years), the actual usable life as determined by the LGU and the economic life need not be identical nor should they be for different analytical purposes).

3. Identifying the Socio-Economic Benefits

The project will produce a wide range of benefits throughout most of the Philippines. The main project benefits are summarized as follows (see Annex G, Socio-Economic Annex, for the detailed discussion).

a. Strengthening the Private Enterprise System and its Participants.

Markets are almost completely composed of and utilized by small private traders and producers who require infrastructure to be in operation. New and improved markets will create new trade opportunities and will facilitate the performance of all market traders and producers in providing marketing services and products. As a result, the number of participants will increase along with the average level of services and products.

b. Improving the Efficiency of the Marketing System and the Allocation of Benefits

By replacing or improving markets that are congested and unhealthy, the efficiency of the marketing system will be enhanced. The results will include improved price and quantity commodity information flows, easier and less expensive access, improved quality and selection of goods, increased demand by consumers for goods and services and generally lower operating costs for both the market and vendors. These will thereafter translate into higher and more stable prices for producers and/or lower and more stable prices for consumers. At the same time, the vendors will tend to be relatively better off as they are rewarded for their additional services. The increased real incomes of producers, vendors and consumers will result in second round production and consumption effects.

c. Impact on Sanitation, Health, and Nutrition

New, improved and well-maintained markets will facilitate the strict enforcement of sanitary regulations, the systematic screening of food handlers/vendors and thorough inspection of what is being sold. Additionally, a greater variety of food (fresh and processed) will become available to market consumers. The net outcome is the vending of an increased selection of food and food products of improved hygienic quality.

Improvements and upgrading of market facilities will have a positive impact on the control or prevention of spread of the following major diseases: the various forms of food poisoning and intestinal parasitic diseases, hepatitis, amoebiasis, dysentery, typhoid fever, and tapeworm infestation. The control and prevention of these common deseases will in turn impact on the lowering of medical care costs and minimize work-disability days.

d. Improving Job Skills

The technical assistance and training to be provided by the project will improve the skill level of numerous individuals. As a result, the value of their future services to the economy as well as their own potential income stream will rise.

4. Measuring the Economic Benefits

Given the state of the art in projecting the benefits of a market project and the available information base, complete quantification of the economic benefits, as identified above, is impossible. Instead, it is necessary to approximate these benefits through an alternative method. Essentially, it involves estimating the potential economic advantages of the major recipient groups of the project for a prototype market situation. The resulting benefit estimates underestimate the probable project totals because many are intangible and could not be accurately and reasonably estimated.

The project's estimated socio-economic benefits are composed of (1) the increased willingness-to-pay of existing vendors for new facilities (estimated at ₱0.50 per m^2/day), (2) the willingness-to-pay of new vendors (estimated at ₱1.15 per m^2/day), (3) the increased willingness-to-pay of consumers (estimated at 2 percent of the value of sales or ₱100 per m^2/year), and (4) the increased value of direct market services not otherwise included (the value of the additional labor employed, valued at its shadow price, is used as a proxy of this increased output: this is estimated at ₱180 per m^2/year).

The beneficiaries are unlikely to actually pay/receive the estimated economic benefits in a monetized form. Rather, the amounts used represent the theoretical potential return to each beneficiary group and hence the economic benefit they will receive. As a result, these economic benefits are explicitly different from those used in the preceeding financial analysis. The use of a different prototype market in this analysis would have changed both the computed benefits and costs but would be unlikely to change the overall socio-economic results.

5. Identifying and Measuring the Economic Costs

Identifying and measuring project socio-economic costs are more straight forward and more complete. Project costs are composed of (1) US dollar transfers for peso expenditures/direct dollar disbursements of project funds for construction, technical assistance and training, adjusted for shadow prices, (2) the unsupported Philippine share of project expenditures for management and administration, and (3) the imputed cost of the land used for markets, based on the shadow price of the land. It is assumed that the new and improved facilities along with the technical assistance and training result in an increase (20 percent) in the productivity of personnel employed in managing and operating the market facilities. Hence, it is assumed that no additional operating cost for new and improved markets need be employed in this analysis.

6. Conclusion

As fully contained and articulated in Annex G, the Markets project is both socially and economically feasible and desirable. The project has an IRR 28 and represents an excellent way of (1) strengthening the Philippine private sector, (2) providing new income and improving the quality of life of a large number of persons, particularly low income persons, (3) improving the performance of the competitive marketing system, and (4) reducing the incidence of sickness and disease related to food handling and distribution.

C. TECHNICAL ANALYSIS

1. The Impact of New Investment in Markets

New, appropriately designed and located market structures and proper management of markets can make a real contribution to improving the efficiency of the Philippine marketing system. Proper design, location, stall siting, and management will go a long way to relieving the severe congestion associated with markets. Reducing congestion will benefit the whole urban area, not just those involved directly with the marketing functions. Larger, better run markets will distribute a larger volume of goods in a shorter time.

This can reduce transportation congestion and waiting time; therefore, costs. Thus, mark-ups can be reduced; more people can take advantage of the lower market prices; sales can expand; and the increased demand may result in higher prices for farmers and other suppliers. Though difficult to measure, consumers will gain a considerable saving in terms of time and convenience. Health benefits will also be significant although difficult to measure. In sum, the replacement of outdated and inadequate markets with new efficient markets will produce benefits for a wide range of urban and rural residents.

In addition, improved management of markets will lead to more rational stall rental rates and provide new revenues for fiscally stressed LGUs. Furthermore, new markets have a positive impact on surrounding land values and these lands should, in turn, be taxed to generate additional local revenues.

2. Location and Other Criteria for New or Rehabilitated Construction

It is useful to view decisions concerning market locations as a two phase process. First, growth centers most in need of new market structures must be selected. Second, once a specific LGU is selected, decisions must be made concerning the location of new market facilities within the LGU's jurisdictional boundaries. If the old market is to be renovated, it is not necessary to make the geographical decision, although the phasing of the construction will be critical.

a. Selection of Centers

Many determinants will be used for selecting LGUs in need of new or rehabilitated market structures. The exact criteria and standards will be agreed to by AID as a Condition Precedent (CP) to Disbursement of Funds for Credit. (See page 40, Conditions Precedent to Disbursment of Funds for Credit.) Some illustrative criteria follow:

(1) The LGU will be designated a growth center in approved GOP plans, thus having potential for fast growth in the future and being a recipient of investments for that purpose.

(2) Existing market facilities will be inadequate based on size, age, location, and/or some other significant factor(s). A recent survey by the Secretariat assessed the adequacy of existing markets and the need for new or rehabilitated markets.

(3) The LGU will have a Net Borrowing Capacity (NBC) capable of servicing the loan. In addition, the subproject feasibility reports must show that the market is economically and financially feasible.

(4) The LGU generally will be in a central or highly travelled location. The existing pattern of market flows will be used to assess this factor. Centrality is dependent upon existing transportation networks, communication patterns, geographical barriers, cultural, ethnic or linguistic boundaries; and these historical patterns are usually quite efficient and resistant to change (See Annex E, Growth Center Strategy).

(5) Strong interest in a new market on the part of the local mayor, the LGU council (Sanggunian) and the local treasurer's office. The relevant officials will be cooperative and willing to undergo training on how to operate markets efficiently, as well as keep accounts which accurately show costs.

(6) The population, especially the existing stallholders, must be genuinely behind the development of new facilities.

Some of the designated growth centers will not be able to meet all of the criteria listed above. In actually selecting locations, some compromises may have to be made.

b. Selection of Locations Within Urban Areas

Somewhat different criteria are relevant for determining where to build new market facilities within an urban area. It is important to recognize that large and expanding LGUs need several markets, and that a convenient long-term arrangement is to have one or two central market locations, and several "satellite" markets in different directions from the jurisdiction's center between half and three-quarters of the way to the urban periphery. Therefore, it is not possible to maximize all of the criteria listed below. In many cases, new markets can be located on the opposite side of the LGU center from the existing central market, which may be rehabilitated simultaneously. In this way the two markets are convenient for most users and congestion in the city can be reduced. The following criteria will be included in the review of each market:

(1) Relatively low cost for site development, including land; the installation of on site water, electrical and drainage systems; and off site road access and parking.

(2) Availability of publicly owned, suitably located land of sufficient character or the potential for easy public acquisition of land either through long term lease, purchase, or eminent domain.

(3) Adequate space for expansion to meet the community market needs of the next 27 years (a new market structure will have a financial life of 27 years).

(4) Ample parking for trucks and other vehicles used to bring goods and people to and from the market.

(5) A location where traffic congestion is avoided but reasonable access to national roads, highways and the main arteries of the community is assured.

(6) Easily accessible and convenient to consumers. In locating new market facilities, an attempt should be made to maximize the accessibility to a market of all people within the market area. This implies that new locations should be selected such that the system of markets (both new and old) best serves the population. Markets should both be accessible to various forms of public transportation and have substantial residential concentrations within five to seven blocks walking distance.

(7) Compatible with adjoining land uses. This deems location in a commercial or mixed commercial/residential area as opposed to an industrial zone or a strictly residential zone, or next to a hospital or some other activity, which might be disrupted by a market.

The first five criteria suggest locations on the periphery of urban areas, while the last two criteria, which are perhaps the most important, favor central locations. In this context, it appears that the criteria often can best be fulfilled by developing satellite markets.

For towns that have well designed land use plans, "future" market locations may be pinpointed already. These sites should be acceptable compromises based on the above criteria. For towns that do not have land use plans, site selection will be a matter of identifying locations that can offer most of the attributes outlined above.

An important locational factor is the externalities generated by markets, i.e., the effect the market has on surrounding property. Markets are a traffic magnet both vehicles bringing both consumers and products to be sold. This added traffic has a detrimental affect on movements to and from properties near the market. The crowds of low income people attracted to markets and the noise and smells generated might be perceived as a negative externality by some people. On the other hand, markets attract consumers so that commercial outlets near markets benefit from increased clientele and sales. In general, this positive externality causes land values and rents to increase rapidly in areas surrounding a new market. Such increases constitute a windfall profit for landowners fortunate to own property near a new market.

Acquisition of land is another potential problem area. Because large sums of money are involved, local political figures and property owners have a strong vested interest in decisions concerning where to locate new market facilities. Public purchase or even long term lease provides a situation with the potential for influence peddling. Even if fair and equitable purchase agreements are reached, obtaining clear title to land can be a very time consuming process. In many cases, there are prior claims on the land and resolution of these claims can take years.

In short, it is safe to say that identifying a suitable site for a new market and acquiring the land is often a controversial and time consuming process. Given the difficulty of accurately determining the value of land, AID will finance neither the cost of the land nor any land acquisition processes. LGUs will be responsible for providing land, satisfying specific locational criteria, before market finance will be available. USAID and the GOP feel confident with the requirement that the LGU provide well located land for the market. This increases the probability of market success and assures LGU interest.

c. Rehabilitation or Expansion of Existing Markets

In many ways, rehabilitation or expansion of existing markets is considerably easier than construction of a new market because it obviates the controversial process of selecting a site for a new market. Indeed, due to the problems of selecting and acquiring a suitable new site, in many cases it might be preferable to construct a completely new market on the site of the old market. However, between razing the old structure and completing the new, market functions can be seriously disrupted . This can be minimized by undertaking the construction in phases.

Most existing markets are at least 30 years old and thus are located centrally within the market systems which have evolved around them. It is difficult to find an old market that is not centrally located. However, even with a central location, existing markets may have a low accessibility due to severe congestion. Existing markets are situated on publicly owned land. Thus, the lengthy process of obtaining title or a lease for a new site is not required.

Before rehabilitation, expansion, or reconstruction projects are initiated, care must be taken to assure the adequacy of the location. Consideration will be given to all of the location criteria listed above. For rehabilitation projects, a critical consideration is the size of the existing site. Can it accommodate the expected increase in market activity? Is there adjacent publicly owned property (or easily acquired property) which can accommodate market expansion? Are roads serving the market adequate

to handle expected increases in traffic? How can future congestion be minimized? Are existing water, sewerage, drainage and electricity services adequate? Can satellite markets be developed? Can the mix of market stalls reflect community needs? All of these questions, along with those concerning economic and financial feasibility, will be addressed before initiating rehabilitation projects. In order to insure that proper attention is given the above concerns, USAID will require, as a CP, evidence that these questions will be fully dealt with within the feasibility study before subproject approval.

3. Design of Market Facilities

The design for all new and rehabilitated markets will be based upon established GOP engineering design standards and a design program tailored to meet local needs. A local private architectural firm and/or a LGU's engineering office will be involved to the degree possible. Information for the design program will come from a variety of sources. In efforts to adapt to local architectural preferences, the availability and cost of local materials and the problems posed by such local hazards as earthquakes and typhoons will be considered. Existing construction systems and material supplies will be observed and analyzed. Construction estimates will be based on the geographic location, size, and projected population of the market area and the scale and types of product deliveries. Interviews will be conducted with both individual stall holders, retailers' associations and consumers who use existing markets. These views, along with those of local political leaders and the local treasurer's office will be incorporated into the feasibility study and design.

Estimates will be made of likely and desirable future changes in local consumption patterns, and the probability of changes in the existing marketing structure, such as direct sales by individual producers and by production and marketing cooperatives. Decisions will be made concerning the scale and range of activities to take place in the new market. These might include wet markets for fish and meats; semi-wet market for vegetables, and fruits and restaurants; dry markets for household items, groceries and clothing; cold storage and dry storage facilities; public restrooms, parking, waste disposal, health and day care facilities; space for cafeterias and other eateries; branch bank utility collection and public agency offices; and meeting rooms. Offices for private or public organizations will be charged a rental fee adequate to expenses. The specific mix of commodities handled and facilities and services provided will be an integral part of the subproject feasibility study and financial analysis which will be approved by the LGU and MHS/MPO.

4. Design Prototypes

Three market prototypes have been developed, designed and costed by a Philippine architectural and engineering firm for the Secretariat as an aid to subproject approvals. However, because many LGUs already have designs in hand, or require a market design specific to land constraints and other local characteristics, these prototypes will serve only as a guide. The three general prototypes are:

Prototype	Estimated Cost[1/] (Million P)	LGU Population	No. of Market Stalls	Area	Regular Market Days
A	2.0	40,000- 70,000	125	1,500m^2	3-5
B	4.0	60,000-100,000	250	3,000m^2	5-7
C	6.0 and up	over 90,000	375	4,500m^2+	7

1/ P1,333/m^2; $1.0 = P8.0

In all cases, final approval of individual market facility designs will be the responsibility of the LGU. Completed market designs will be the subject of public review prior to final approval. The development of a market design will be a collaborative effort of the LGU, MHS/MPO and MHS/MPO consultants. Many LGUs have the in-house ability to produce plans for and supervise the construction of new markets. Many medium sized municipalities may utilize the in-house capacity of their respective provincial governments. Additional expertise, from MHS/MPO consultants, will be used when appropriate. While the MHS/MPO will have input to the design process, it will not have final design approval. Having LGUs responsible for the design and supervision of construction is consistent with efforts to decentralize decision-making in the Philippines.

Although architectural and engineering capacity at the local level is generally adequate, the MHS/MPO will contract with consultants to provide specific expertise relating solely to markets. As mentioned previously, little market construction has taken place in the last twenty years, so most LGU engineering departments have little specific experience with design and construction of markets.

D. ADMINISTRATIVE ANALYSIS

1. Many LGUs own a market(s). Fees for space rental, services and utilities are fixed by the LGU council (Sanggunian) whose members are elected by the community. However, a maximum allowable fee schedule has been established by national legislation and enforced by the MOF. LGUs are allowed to establish a rate structure

up to the authorized maximum. In most cases, the local council has established a market ordinance that is not at the maximum authorized by national legislation. Similarly, LGU treasurers also have latitude in setting actual market rate schedules, so long as fees do not exceed either the local or national authorized level.

The day to day administration of markets is by law[1/] the responsibility of the LGU treasurer. The treasurer exercises, within the legislated bounds outlined above, ultimate supervision over the market. As overseer of market operations, the treasurer does not always impose a rate schedule equal to that authorized by either the local council or MOF. This sometimes results in a market operation at less than the breakeven point. However, the treasurer and respective local council have the authority to set rate schedules, which could produce sufficient revenues to fully cover market expenses and costs. The project, through supplied technical assistance and subproject loan conditions, will require that the market have a fee schedule adequate to cover all expenses.

In some LGUs, a market administrator (manager), reporting directly to the Treasurer, has daily responsibility for market operations. In these cases, the market administrator has direct supervision over market employees. Most markets have revenue collectors, inspectors, security guards, maintenance personnel and clerical employees. In smaller LGUs, where market activities are limited to 2 or 4 days a week, market staffs also perform other additional tasks for the LGU.

2. Accounting Requirements

Supposedly, national law seems to prohibit a LGU from making more than 10 percent profit on activities classified as an economic utility enterprise (e.g. ports, airports, railway stations, markets, slaughterhouses, toll bridges, etc.). In practice, however, there appears to be no enforcement of this legislation. Two recent academic studies conducted on markets confirm that this law (also Presidential Decree No. 231, as amended) is largely inoperative under Philippines practice, and revenues beyond 110 percent of markets expenses do fund other LGU activities.

Under the existing system, market expenditures are difficult to identify or estimate. In some LGUs, permanently assigned market health inspectors and sanitation workers are in the health department budget and not charged as a market expense. At some markets, individual stalls may have water and electricity, which is absorbed in the total city utility bill. Many market expenditures may also be shared with other LGU departments, making identification of market costs imprecise. Consequently, few LGUs know in real terms whether market revenues are equal to, less than, or exceed

1/ Presidential Decree No. 231, as amended

market expenditures. LGUs review their financial success on a highly aggregated level. If gross LGU revenues (locally generated and from central government allotments) equal or exceed the LGU's expenditures, then all LGU operations are considered sound. No differentiation among cost or revenue centers is usually made. The problem is to identify all market expenditures and compare these to market revenues to assure a breakeven or net revenue point is reached.

3. Existing GOP Loan Programs

As briefly outlined in Part II, A. 7, Reasons Behind the Existing State of Markets, the GOP has an existing, but fragmented program for prioritizing and financing the construction of markets. Loans specifically for market construction or renovation are available from several GOP lending institutions--GSIS, DPB, and LBP. The program, however, has severe difficulties, which are basically: (a) low fund availability, (b) high default rate, (c) financing arrangements inappropriate to the LGU's needs, (d) no provision of technical assistance, and (e) lengthy loan processing procedures.

Low utilization of available loan funds is, in part, a consequence of the manner by which a LGU's NBC is computed. The NBC is calculated at seven percent (7%) of the LGU's taxable valuation of real property, less outstanding loans and other indebtedness. Historically, LGUs have been uncomfortable with the NBC balance available after financing new market construction or major renovations at commercial rates. Thus, the market potential is not evaluated against the debt to be incurred for solely that economic utility enterprise, but against the entire LGU finances. This in itself is sound management from a total LGU perspective, but it results in fewer markets than what is required.

The high default rate may result from the relatively high interest rate and short amortization period for market loans. Loans for markets are at present available for a 10 to 15 year period, at interest rates of from 20-23%, with varying equity contributions, depending on the viability of the project and the overall financial standing of LGU. Many other commercial utility services provided by LGUs can be financed concessionally from central GOP sources at 10-12 percent (e.g. rural roads, buildings, water and electricity). Also, most concessional loan programs to the private sector (the KKK program, the Industrial Guarantee Loan Fund, etc.) have interest rates pegged at 9 to 14%. Further, the current repayment period, 10 to 15 years, is significantly less than the financial life of a market (27 years). All these loan specific factors make market financing less favorable than other public sector programs and many concessional private sector programs.

Lack of technical, analytical and packaging skills necessary to prepare feasibility studies by both the borrower and/or the lender have resulted in poorly developed market proposals and sometimes even the construction of a facility inappropriate for the local conditions. The consequence is that existing government lending programs are extremely rigid, expensive and bureaucratic, which LGUs find cumbersome and discouraging to utilize.

4. Strategy

The problems cited will be resolved by certain administrative modifications at the MOF and LGU level. The administration of this project is feasible with minor changes in the manner markets are organized, funded, and managed or controlled. These changes include:

a. Assuring that each market is operated and managed by a LGU as a breakeven/self-sustaining commercial utility. That is, the revenue of each market is evaluated against its total expenditures (recurrent expenses and long-term debt).

(1) LGUs will institute and comply with new cost accounting, financial management procedures and performance monitoring requirements. LGUs will submit regular reports to the MHS/MPO, MOF and the Secretariat regarding the financial status and performance of each market.

(2) The MHS/MPO will provide LGUs with regular technical, financial, and management assistance during subproject design and in the initial years of operation.

(3) Treasurers and local councils and officials will be required to establish and administer rate schedules that are based on total market expenditures in order to achieve at least a breakeven operation.

b. Qualified consultants will be used to assist in streamlining the processing and evaluation of LGU proposals to provide project development and management services to LGUs and to provide expert advice to the MHS/MPO.

c. Training for LGU officials, treasurers and market administrators (managers) in the use of new techniques for the monitoring and management of markets will be provided. Academic institutions and/or the private sector, will train treasurers and market administrators in all aspects of market operations and conduct applied research.

E. ENVIRONMENTAL ANALYSIS

Most Philippine markets are lacking in cleanliness and sanitation systems. Extreme congestion and a high noise level also accompany markets. Ventilation, lighting, drainage and waste disposal systems are inadequate. These problems are a result of two major deficiencies. First, many markets are undersized because they were built to the construction standards and needs of the early 1950s, and before. The population of most Philippine urban centers was then less than a third of what it is today. Consequently, even when assuming that some population growth was anticipated, many markets are being used by three times as many persons as originally planned. The expanded volume, coupled with aging facilities, puts tremendous strains on existing markets. Second, market administrators and treasurers are not trained to provide the required standard of sanitation and health conditions in market operations. In many circumstances, despite severely pressed facilities, a healthier environment for food could be realized by improving market administration procedures.

A major purpose of this project is to enhance the economic, social and financial role of markets in certain LGUs identified as growth centers. In numerous cases, market construction and operating changes will have significant environmental impact. Therefore, each subproject will be analyzed and reviewed from an environmental point of view by the MHS/MPO, its consultant(s), the LGU, and the Secretariat according to GOP and USG regulations before commitment of funds. An initial environmental examination will be included in the feasibility study for each subproject. Appropriate procedures are in place to do individual environmental analyses for each subproject.

IV. PROJECT PLANS

A. IMPLEMENTATION PLAN

1. Organizational Responsibilities

Implementation of the markets project will involve GOP entities traditionally responsible for market administration, finance and planning. At the subnational level, LGUs will continue to be responsible for the design and construction of, and acceptance and payment of debt for markets. At the national level, the Secretariat and MHS/MPO will manage and implement this project in coordination with a task force of other GOP agencies. The specific organizations involved in project implementation are outlined below and their responsibilities are illustrated in Figure 10, Markets Approval Process.

a. Management Advisory Committee (MAC)

The MAC provides general program and policy guidance to the ESF program. The MAC, composed of eight Cabinet Ministers, is chaired by the Minister of Human Settlements. The MAC was created by President Marcos under Letter of Instruction 1030 dated May 27 1980. It authorized a Secretariat under MHS to administer ESF projects.

The MAC, which has already approved the Markets project on the basis of preliminary documentation, will approve only subprojects which cost $5 million (approximately ₱40 million) or more.

b. The Development Projects Fund Secretariat (The Secretariat)

The Secretariat was authorized by President Marcos under Letter of Instruction 1030 dated May 27, 1980 to oversee daily operations of the ESF program on behalf of the MAC. The Secretariat is presently managing or about to begin management of five ESF projects -- Project Design, Elementary Schools, Clark Access Road, Municipal Development Fund and Rural Energy. The Secretariat currently has a staff of approximately 75. The staff is experienced and is well trained in the many fields required for the successful management of the Markets project. These include engineering, public finance, auditing, regional planning and economics.

From the existing Secretariat complement, a markets project staff of three persons will be charged with overall policy and management. This Secretariat markets staff will be augmented by short-term details from other GOP agencies forming the Inter-Agency Finance Committee (IAFC). The approval for subproject financing will be the responsibility of the Secretariat's Executive Director. The approval decision will be based upon an assessment of the MHS/MPO feasibility study for the subproject by the Secretariat and debt financing approval by the IAFC. The Secretariat, through PNB, is the formal lender to the LGU.

c. MHS Markets Program Office (MHS/MPO)

As discussed previously, no one ministry or inter-agency group is now responsible for overall planning and programming for new, expanded and upgraded markets nationwide. In essentially filling this comprehensive role, the MHS/MPO will provide overall program and project guidance and will coordinate subproject development, design, implementation, monitoring, and evaluation. Staff salaries and operating expenses for MHS/MPO are not part of AID's contribution to the project and are not a part of the ESF program.

The MHS/MPO is responsible for the design, formation, implementation and administration of a nationwide Markets Development Program. It is specifically tasked with programming all GOP activities related to market construction and the preparation and evaluation of proposals for market distribution and/or upgrading.

The MHS/MPO will inform growth center LGUs potentially eligible for market assistance of the following: (a) the opening of a loan window administered by the MHS/MPO, PNB and the Secretariat and (b) the availability of (i) technical assistance to LGUs from the MHS/MPO consultants and (ii) training for LGU officials from MHS/MPO.

MHS/MPO staff and local and foreign consultants, under contract to the MHS/MPO, will then provide LGUs with specific engineering, economic, financial, management, accounting and other technical assistance to prepare feasibility studies, introduce cost accounting systems and manage/evaluate completed subprojects against design feasibility criteria. Approved feasibility studies will be endorsed to the Secretariat for loan financing.

At present the MHS/MPO has a staff of seven persons. As the Markets project will provide the initial funding to what is proposed to be a ₱1.5 billion Markets Development Program, the MHS/MPO staff will increase significantly over the next several years.

d. Inter-Agency Finance Committee (IAFC)

An IAFC, composed of representatives from the MOF, MOB, MLGC, and the Secretariat, is responsible for assuring that the proposed subproject loan is within the capability of the LGU. The IAFC, the same as that currently being utilized under the MDF, will evaluate and recommend, for Secretariat, and, as necessary, MAC and/or USAID approval, projects which are financially viable and are within the financial standing of the LGU. The IAFC will evaluate the NBC of the LGU proposing the market subproject to assure debt servicing capacity.

e. Philippine National Bank (PNB)

Basic banking (cashier) responsibilities will be undertaken by PNB. PNB is the largest Philippine commercial bank and is a well established government corporation handling a number of concessional and commercial lending programs. As indicated earlier, PNB will not be involved in subproject feasibility evaluation and performance monitoring. The Secretariat will enter into an agreement with PNB, similar to that in effect under MDF, to perform only subproject disbursement and collection functions. USAID, as a CP, will approve this agreement prior to any credit disbursements.

f. Local Government Units (LGUs)

LGUs, under the direction of the chief executive but primarily through their respective Treasurer, Planning and Development Staff and Engineering Office, will identify, design and implement market subprojects.

To assure demand for new market construction, upgrading or expansion, consultations will be conducted between LGU leaders and the MHS/MPO. The LGU will meet with the local population and market user groups as required to assure community acceptance. Subproject approval by other GOP agencies, where appropriate, is the responsibility of the LGU with the assistance of the MHS/MPO. Market approvals or endorsements may be required from the Regional Engineer (Ministry of Public Works and Highways), the Regional Office of the National Economic and Development Authority, and the HSRC, among others. LGUs are (1) responsible for the repayment of the concessionary loan administered by PNB and lent by the Secretariat and (2) to be trained in and expected to utilize modified accounting and management systems in the operation of markets as implemented and prescribed by MHS/MPO.

In general, larger LGUs are well organized administratively and have performed well in past programs providing quality construction in a timely manner. LGUs have the capability, to varying degrees, to undertake the additional construction and implement the administrative procedures proposed under this project without adversely affecting existing commitments.

AID has had many years of experience working with LGU's. LGU's will implement their respective subprojects in accordance with standard GOP procedures and regulations and the terms and conditions of the Project Agreement.

g. Agency for International Development

Almost all project costs will be local. For local costs, AID will provide dollars to the GOP in exchange for the GOP using its budget resources to carry out agreed upon subprojects and provide agreed upon outputs. When the Project Agreement is signed and CPs are met, AID will transfer dollars to the Treasury of the Philippines equal to the estimated peso cash requirements needed to meet the annual local costs of the project. These disbursements will be annual features of the implementation plan, as will the use of regular GOP budgetary resources to implement the subprojects. This allows AID to rely on established GOP procedures and administrative apparatus. This local cost procedure: (1) allows AID to disburse dollars in advance of local costs expenditures which support base-related reasons for providing ESF assistance; and (2) allows the GOP to use its own appropriated pesos to carry out agreed upon activities leading to agreed outputs. However, the USAID will

continue to be involved, in a reduced way, in monitoring these components. Monitoring will be focused on the institutions carrying out the subprojects in accordance with agreed upon criteria and procedures. If they do, then the project will be deemed to be successfully completed; if not, then the AID will have the right to review the system for the source of failure. In order to determine whether the institutions are properly implementing the project, USAID will monitor by exception. Feasibility studies will be reviewed on a random basis. Subprojects meeting the agreed upon criteria and implemented under agreed upon procurement procedures will only be spot checked to ensure outputs are occuring as agreed upon. Subprojects and/or procurement procedures which are outside the pre-approved criteria will be fully reviewed and approved by USAID before proceeding and will be more closely checked in implementation. Given this institutional orientation, AID will minimize its implementation monitoring and approval role and workload. The major implementation responsibility, however, will rest with LGUs and the MHS/MPO, the implementing agencies.

Under the foreign exchange assistance to this project, regular AID procurement procedures will be used to purchase foreign contractor services and to provide overseas training.

2. Assessment of Institutional Capability

It is USAID's judgment that the Secretariat, the MHS/MPO, LGUs and other participating GOP agencies are capable of executing the Markets project as presented herein. Appropriate plans are in place to insure effective commitment of funds on a subproject basis.

3. Implementation Schedule

The Markets project will be implemented over approximately 6 years with initial $4.0 million obligation in August 1982. The scopes of work for the MHS/MPO consultants will be completed by the end of FY 1982. It is expected that some consultants will be on board by the start of CY 1983. With consultant inputs, and as a result of the extensive contracting, policy and procedures, work already completed on the MDF project, the CPs to Disbursement of Funds in support of the Credit Component will be met by mid-1983. As many eligible LGUs already have market designs available and subproject identification and design has begun, construction may be expected in late 1983.

4. Monitoring/Reporting

To keep track of project execution and respond effectively to problems or difficulties that may arise during implementation, GOP monitoring and reporting will be undertaken at the project and subproject levels.

At the project level, reports on the completed quarter's actual expenditures and on the next quarter's expected expenditures will be prepared by the Secretariat for submission to USAID. The reporting and monitoring of the physical progress of the project will be done at the subproject level. They will cover not only the subproject implementation phase, but also the conceptualization and the post-implementation phases of subprojects. Documents related to the development, execution and evaluation of the subproject, will be collected by the Secretariat and forwarded to USAID for encoding and input to its computerized project management system. All documents and reports will be returned to the Secretariat after they have been processed. (Please see Annex I, Project Management System - Impact Documents, for the list of documents and reports.) In addition, visits to project sites will be made randomly and at strategic stages of project execution by the USAID Project Officer and Engineer(s) as well as appropriate GOP officials.

5. Procurement/Contract Approvals

Since subprojects will essentially be developed and constructed with G.O.P. owned pesos, A.I.D. will not be involved with approval of individual contracts, source/origin requirements, review of competitive procedures, etc. Instead AID will agree with the Secretariat that the subproject identification, design and planning criteria established under the MDF Project will be followed. Further, the procurement procedures established under MDF will be followed. AID will approve all contracts over ₱25.0 million (approximately $3.0 million) or when a subproject does not adhere to pre-approved project procedures (See Special Covenants, page 40). The Secretariat and AID will approve all foreign procurement and the approval of all TA contracts central to the overall implementation of the Project with scopes greater than a particular subproject.

6. Source/Origin

Markets of the type supported by this project are rarely found in the U.S. Technical assistance and training for new and improved market operations can easily be secured in Latin American and other Southeast Asian countries. Therefore, foreign technical assistance and overseas training will be also available from Code 941 and Code 935 countries.

Except as AID may agree otherwise in writing, all project construction services, equipment and materials will have a source/origin of Code 000(U.S.) or Philippines.

B. FINANCIAL PLAN

1. General

As summarized in Table 6, Summary of Obligations and Projection of Expenditures by Fiscal Year, the project will be obligated in three tranches ($4.0 million FY 82; $10.0 million FY 83; and $7.0 million FY 84), for a total obligation of $21.0 million. Expenditures will increase rapidly from FY 83 onward. The obligation to expenditure ratio will increase to FY 84 from where it will decline rapidly, with full use of all project funds expected by the end of FY 88.

The technical assistance and training components will expend proportionately quicker as the project advances. Technical assistance, and to a lesser extent training, must be in place before major credit disbursements will be considered (see CPs). Table 7, Projection of Detailed Expenditures by Fiscal Year, estimates component expenditures.

The GOP financing of this project (See Table 8, Costing of Project Outputs/Inputs) not supported by ESF dollars is estimated to be $3.3 Million in equivalent Pesos or 13.5 percent of total project costs of $24.3 Million. This unsupported counterpart funding is for MHS/MPO and LGU salaries and other expenditures for the planning, analysis and design of markets. It also covers certain GOP costs incurred in the training component. The majority of unsupported GOP funding, $2.7 million equivalent, is for the provision of land by LGUs for new market construction and/or market enlargements. The cost of land, in recent markets constructed, is between 10 and 15 percent of the total subproject cost less technical assistance and training. Therefore, 13 percent of the credit component has been estimated as unsupported GOP counterpart since land will not be eligible for project funding.

As shown in Table 9, Summary Cost Estimate and Financial Plan, the proportion of this project in Foreign Exchange is approximately 4 percent. Most technical assistance and training costs and all credit component costs supported by the project are in pesos. All GOP unsupported counterpart financing is in pesos. The only expected foreign exchange costs are for foreign consultants and overseas training.

2. Term, Interest Rate and Grace Period

All subprojects will be financed by a loan between the LGU and the Secretariat. As described in the preceding section, these loans will be administered, disbursed and collected by PNB. Subproject loan terms are 27 years with a nine percent interest rate. Interest and principal will be paid annually after a two year grace period transpires. The grace period begins after subproject construction is certified as complete by the LGU and the Secretariat.

All subproject loan payments will be paid to PNB then deposited in the Philippine Treasury.

3. Dollar Disbursements

a Foreign Exchange Costs

Foreign exchange expenditures (training and technical assistance) will use standard AID Letter of Commitment/Letter of Credit disbursement procedures. AID will disburse the dollars directly to the suppliers in accordance with appropriate AID approved contracts.

b Local Costs

AID will disburse dollars annually equivalent to the pesos required to finance local cost expenditures for one year. Dollar disbursements will be made to the Philippine Treasury and will become free foreign exchange at the time of the disbursement. The GOP will use appropriated pesos to execute the local cost components in accordance with the Project Agreement. The pesos will be disbursed from the GOP Treasury General Fund and will be owned, controlled and accounted for solely by the GOP. In the Project Agreement, the GOP will agree to: (1) the AID review and approval procedures contained in Annex I of the Project Agreement, and elsewhere in the Agreement; (2) report to AID on the peso uses in quarterly progress, management and financial reports; and, (3) allow for audit and inspection by AID of the agreed upon project elements financed by the pesos.

4. GOP Budgetary Procedures

The GOP peso/AID dollar disbursement system for local cost component is presented below:

(a) A life-of-project appropriation for the project has been included in the GOP's CY 1982 General Appropriation Act, as supplemented.

(b) After the Project Agreement has been signed and CPs met, the appropriated project pesos will be fully allotted to the Secretariat. This allotment and subsequent reallotments to MHS/MPO and LGUs allow the implementing agencies to enter into obligations such as loans and service and construction contracts.

(c) AID disbursements of dollars to the Philippine Treasury will be equivalent to the estimated peso cash requirements of the project for the ensuing twelve months and will be linked as closely as possible to the date when peso disbursements are scheduled to commence. The GOP will then release a Cash Disbursement Ceiling

(CDC) in peso equivalent to the amount of the dollar disbursement. The CDC is the GOP's internal authorization for disbursements of allotted funds.

(d) Whereas dollar transfers will be based on estimated annual cash requirements, requests for additional amounts may be processed more frequently than annually if peso disbursements exceed projections. On the other hand, if peso disbursements are slower than predicted, the succeeding dollar disbursement would be held up or reduced accordingly.

Under this procedure, AID dollars are not directly linked to local cost subprojects. Rather, GOP pesos are used in accordance with GOP regulations to implement the project and produce agreed upon outputs.

5. Retroactive Financing

MHS/MPO has already started a nationwide Markets Development Program which this project supports in part. Construction costs incurred by the MHS Markets Development Program's subprojects meeting requirements of this project after December 21, 1981 (the date of the Public Law appropriating foreign assistance funds for FY 1982) will be considered for peso reimbursement as allowable costs. Any reimbursement from peso appropriated project funds will be considered by AID in determining the initial dollar disbursements under the project.

6. Loans/Repayments

LGUs will be provided with necessary resources in cash and/or in kind on a loan basis. These will be repayable in pesos. Amortization payments flow back to the Philippine Treasury General Fund. The Project Agreement will not restrict the use of these peso re-flows to any particular activity(ies).

7. Conditions, Covenants and Negotiating Status

a. Conditions Precedent (CPs) to Initial Disbursement of Funds

There will be no CPs to intial disbursements for technical assistance and training or annual dollar transfers in exchange for GOP pesos being appropriated for these purposes.

b. Conditions Precedent to Disbursement of Funds for Credit

The first dollar transfer equivalent to support the credit portion of GOP subprojects will require the following CPs which will be included in the Project Agreement:

(1) Evidence that the Cooperating Country has established community review procedures, location criteria and construction design standards for the construction/rehabilitation of market facilities.

(2) The first subproject report containing: evidence that the city or municipality is capable of administering the proposed subproject, an analysis of the present facility and its operation, recommendations for immediate improvements and/or new construction, alternate solution studies; cost data; and an economic/financial/technical/engineering/locational/social/environmental feasibility study.

(3) The agreement between the Secretariat and Philippine National Bank for administration of subproject loans made to cities and municipalities.

The credit component of the Project will be available for disbursement upon satisfaction of the above CPs.

c. Special Covenants

AID will include the following special covenants in the Project Agreement:

(1) The Parties agree that any changes in the approved financial terms, conditions and procedures for the handling of any subproject loans of the Project shall be approved by both Parties.

(2) The Parties agree that any agreements entered into during the life of the project between a city or municipal government and other government entitites or private enterprises for the management or utilization of profits of markets funded by the Project shall have the written approval of the Secretariat before being executed.

(3) The Parties agree that any agreements (debt or equity) entered into during the life of the project between the city, the municipality, the Secretariat, and/or the PNB and any other financial organization for financing markets included in the Project shall have the written approval of the Secretariat before being executed.

(4) The parties agree that any agreements entered into during the life of the project between a city or municipal government and the Secretariat shall contain the following covenants: (a) the market(s) financed will be recognized as a separate cost center within the LGU and (b) appropriate insurance, in the amount of the loan, will be obtained.

(5) The Parties agree that the proceeds of the Project shall be made available to qualified cities and municipalities outside those encompassed in Metro-Manila and those eligible for financing under the Municipal Development Fund, unless AID otherwise agrees in writing.

(6) The Cooperating Country shall agree to adhere to and use the Secretariat contracting manuals for procurement of goods and services, the manual for financial services and the standard Secretariat/City/Municipality Agreement, approved as Conditions Precedent to Disbursement to the ESF funded Municipal Development Fund, in implementation of the Project.

(7) The Cooperating Country shall agree to use the same type of subproject analysis and feasibility report as approved by AID as a condition for initial release of the dollar transfer in support of the credit component as a basis for approving all other subprojects.

d. Negotiating Status

All of the above conditions and covenants have been discussed with appropriate GOP officials, and no problem with inclusion in the Project Agreement is anticipated.

8. Audit

The GOP's Commission on Audit (COA) will continually review project activities as LGUs, the MHS/MPO and the Secretariat are regularly audited by COA. Further, an established Certified Public Accounting firm will be contracted to provide the financial analysis for each subproject feasibility report and to implement a program of cost accounting for approved subprojects. As a result, each subproject will in effect be audited by an outside firm as to viability and compliance with project goals.

The established AID provisions for audit will be in force.

C. EVALUATION PLAN

A flexible evaluation plan is proposed because all specific requirements for evaluative information cannot be identified at this time. The first joint GOP-USAID evaluation is scheduled for a time

when five (5) subprojects have been certified complete for at least two months. An optional second evaluation might be conducted late in the life of the project if the first evaluation, monitoring reports, and project reviews indicate a strong need for additional evaluative information. A total of $80,000 is set aside for evaluation under the Training Component.

The logframe (See Annex J) will serve as a general guide for the design of the first evaluation which will assess present and potential future achievement of project purpose, the viability of hypotheses linking inputs to outputs to purpose and the validity of project assumptions. The evaluation of the design will focus on key issues identified during the first phase of project implementation. While such issues cannot be specified accurately at this time, they may include:

1. The success of the new markets as viewed by consumers, retailers, local political leaders, treasurers, public health workers, MHS/MPO and the Secretariat.

2. Project impact: (a) on the capacity of MHS/MPO and the Secretariat to bring about improvements to markets, and (b) on market management at the local level by LGUs.

3. The impact of the markets on revenue generation, on consumer prices and satisfaction, on farm prices and on congestion.

4. Specific recommendations for improving subproject implementation.

5. Lessons which can be utilized in the design and implementation of other development interventions.

While these issues are rather general, the actual evaluation will address a relatively small number of specific issues for which information is needed for project management and decision-making purposes.

TABLE 1

Identified Growth Centers

Region	Regional Centers	Major Urban Centers	Minor Urban Centers
I	San Fernando Dagupan-Lingayen San Carlos (Sub-regional centers) Baguio, La Trinidad (Sub-regional centers)	Urdaneta Laoag City	Agoo Tayug* Vigan Alaminos Candon Bangar* Batac* Bangued* Mankayan* Bontoc* Manabo* Bangui*
II	Tuguegarao	Ilagan Baggao	Echague Cabagan* Aparri Tabuk Bayombong* Cabarroquis* Ballesteros* Lagawe* Conner* Palanan* Basco*
III	San Fernando Angeles City Tarlac (Sub-regional center) Olongapo City (Sub-regional center)	Malolos Baliuag Cabanatuan City Paniqui San Jose City	Balanga Palayan City* Mariveles Bagac* Masinloc* Iba*

IV	Metro-Manila (Metropolitan Center)	Lucena City Imus	Tanay Silang
IV-A		San Pablo City Lipa City Batangas City Sta. Cruz Nasugbu Calapan Lopez Catanauan San Jose Puerto Princesa City	Infanta* Boac Polillo* Quezon* Bongabong Mamburao* Odiongan* Baler Romblon* Coron* Brooke's Point Taytay (Palawan)* Cuyo*
V	Legaspi City	Naga City Iriga City Tabaco Daet Masbate	Pili Sorsogon Goa Sipocot Irosin Virac San Jacinto* Cataingan Viga*
VI	Iloilo City	Bacolod City Silay City Cadiz City Kabenkalan Roxas City	Jordan Passi La Carlota Kalibo San Jose de Buenavista Culasi* Buruanga*
VII	Metropolitan Cebu (Metropolitan center)	Toledo City Dumaguete City	Carcar Tagbilaran City Bais City Talibon Santa Catalina Bogo Kanlaon City* San Francisco*

			Samboan*
			Garcia-Hernandez*
			Siquijor*
VIII	Tacloban City	Calbayog City	Baybay
		Ormoc City	Carigara
		Catbalogan	Basey
		Maasin	Catarman
			Dulag*
			Calubian*
			Laoang
			Sogod*
			Borongan
			Naval*
			Oras*
			San Juan*
			Quinapondan*
			Victoria*
			San Francisco*
			Mapanao
IX-A	Jolo	Isabela	Tandu Bas*
		Siasi	Maimbung*
			Tungkil*
IX-B	Zamboanga City	Pagadian City	Margosatubig
		Dipolog City	Ipil
			Siay*
			Molave*
X	Cagayan de Oro City	Ozamis City	Oroquieta City
	Butuan City	Gingoog City	Balingaag
	(Sub-regional center)	Valencia	Kitao-tao*
		Malaybalay	Prosperidad
		Surigao City	Initao*
			Tubay*
			San Francisco*
			Mambajao*
			Santa Monica*
			Dapa*

XI	Davao City	General Santos City	Kiamba*
	(Metropolitan Center)	Tagum	Tandag*
		Digos	
		Mati	
		Koronadal	
		Bislig	
XII	Cotabato City	Marawi City	Malabang*
	Iligan City	Midsayap	
	(Sub-regional center)	Maganoy	Tubod*
		Tulunan	
		Kidapawan	
		Isulan	

*Growth Center with a population less than 40,000

SOURCE: Technical Report on Growth Centers, Ministry of Human Settlements, Policy and Research Section, 1979, pp. 89-91.

TABLE 2
LOCAL GOVERNMENT UNIT REVENUES - SELECTED AREAS: 1978
(In Thousands of Pesos)

A	B	C	D	E	F	G
Local Jurisdiction	Population	Total Revenues	Gross Revenue From Operation of Public Markets	Market Revenues As a Percent of Total Revenues	Market Revenues As a Percent of Locally Raised Revenues[a/]	Market Revenues As a Percent of Local Taxes[b/]
Barotac Nuevo	42,926	883	187	21.18	31.27	52.67
Dumangas	48,457	632	96	15.19	21.72	40.68
Iloilo City	260,423	17,391	1,670	9.60	11.71	16.06
Miagao	70,501	693	102	14.72	21.42	53.40
Oton	46,120	567	51	8.99	13.21	36.43
Passi	57,017	1,204	191	15.86	31.36	87.21
Tigbauan	37,443	406	77	18.97	29.84	45.29
Legaspi City[c/]	109,613	5,674	544	9.59	11.38	18.29
Tabaco[c/]	77,814	1,356	426	31.42	44.51	100.47
Gubat[c/]	47,724	650	234	36.00	55.19	178.62
Sorsogon[c/]	62,075	1,025	153	14.93	19,82	38.44

a/ Locally raised revenue is revenue from taxation plus non-tax revenue net of Allotments and aids and contributions.

b/ Local taxes is revenue from taxation not of Bureau of Internal Revenue Allotments.

c/ Computed using 1977 figures.

SOURCE OF BASIC DATA: (1) Population for 1979 is from several special releases of the Office of Executive Director, National Census and Statistics Office. (2) Fiscal data are from selected local government financial reports to the Commission on Audit.

SOURCE: Bahl et al. [1981], Table VII-1, pp. VII-3.

TABLE 3
LOANS TO LGUs BY DBP - 1976-80
(In Thousands of Pesos)

Type of Project	1976		1977		1978		1979	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Markets and Slaughterhouses	10	16,313	15	40,868	6	17,381	2	21,050
Heavy Equipment	9	20,237	12	38,515	5	9,824	13	39,582
Fire Fighting Equipment[a/]					1	43,500		
Water Works[b/]	1	12,000	2	260				
Electrical Systems[c/]								
Cadastral Surveys					1	1,350		
Others								
Totals[c/]	20	48,550	29	79,643	13	72,055	15	60,632

(TABLE 3 - Cont.)

Type of Project	1980 Number	1980 Amount	Total 1976-80 Number	Total 1976-80 Amount	Total - Outstanding December 31, 1980 Number	Total - Outstanding December 31, 1980 Amount
Markets and Slaughterhouses	5	13,831	38	109,443	146	
Heavy Equipment	7	27,583	46	135,741	50	
Fire Fighting Equip[a]			1	43,500	1	
Water Works[b/]			3	12,260	26	
Electrical Systems[c/]					3	
Cadastral Surveys			1	1,350	4	
Others					6	
Totals[c/]	12	41,414[d/]	89	302,294[e/]	236	176,751[f/]

a/ A loan to Metropolitan Manila for purchase of equipment
b/ With the formation of Local Water Utility Administration (LWUA) and National Electrification Administratin (NEA) few loans are now being made for utilities.
c/ Annual totals include projects which have been approved but not necessarily totally funded.
d/ Only ₱12,000 of the total amount approved was released in 1980.
e/ Of the 1976-80 total, ₱139,194 or 44 percent was for local governments in Region IV.
f/ To the outstanding total of ₱176.7 million, an amount of P101.5 million should be added for approved but as of yet only partially funded projects. This would bring the aggregate total to ₱278.2 million.

SOURCE OF BASIC DATA: Unpublished data, Development Bank of the Philippines, January 1981.
SOURCE: Bahl et al. (1981), Table IX-2, pp IX-20, 20a.

TABLE 4
LOANS TO LGUs BY LBP 1977-80a/
(In Thousands of Pesos)

TYPE OF PROJECT	1977		1978		1979		1980		Total 1977-80		Total Outstanding December 31, 19	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Public Markets and Slaughterhouses 15,591	2	7,100	1	4,700	4	11,490	4	12,338	11	46,628		
Heavy Equipment	4	19,213	4	35,753	13	67,480	8	25,140	29	147,586		89,519
Farm Equipment	8	5,927	16	9,088	14	7,529	7	2,539	45	25,083		17,568
Commercial Building			1	3,000	1	2,439			2	5,493		4,252
Road Construction	1	2,881					1	5,000	2	7,881		2,080
Totalsb/	15	35,121	22	52,541	32	88,992	20	56,017c/	89	232,671		129,000d/

a/ Land Bank's loans to local governments started in 1977.

b/ The term "approved loans" refers to the annual number and amount of loans approved by the Board. All the funds were not necessarily disbursed during the year the loans were approved.

c/ In 1980, the total amount actually disbursed to local governments was ₱7.8 million or 14 percent of the amount approved.

d/ To the outstanding total of ₱129 million, an amount of ₱7.8 million should be added for four approved but as of yet only partially funded projects.

SOURCE OF BASIC DATA: Unpublished data, Land Bank of the Philippines, January 1981.
SOURCE: Bahl, et al. (1981), Table IX-3, pp. IX-22, 22a.

TABLE 5

LOAN TO LGUs BY GSIS
(In Thousand Pesos)

Type of Project	1979 Number	1979 Amount	Total Outstanding March 31, 1979a/ Number	Total Outstanding March 31, 1979a/ Amount
Markets and Slaughterhouses			15	14,290
Commercial Building	1	31,100	5	34,332
Electrical Systems			7	6,482
Water Works			1	564
Cemeteries			1	40
Bridges			1	73
Beautification Projects Manila	1	7,425	1	7,425
Totals	2	38,525	31	63,206

a/ The period covered is from 1956 to March 1979. Excluding the t loans in 1979, GSIS made no loans to local governments between 1974 and 1979.

SOURCE OF BASIC DATA: Government Service Insurance System, May 1980.

SOURCE: Pahl et al. Table LX-4, p. LX-24.

TABLE 6

MARKETS

Summary of Obligations and Projection of Expenditures by Fiscal Year ($000s)

Activity	Fiscal Year 82	83	84	85	86	87	88	TOTAL
Obligations	4,000	10,000	7,000	-	-	-	-	21,000
Expenditures (Anticipated Disbursements to the GOP		1,000	3,000	3,000	4,000	5,000	5,000	21,000
Cumulative Obligations. Less Cumulative Expenditures	4,000	13,000	17.000	14,000	10,000	5,000	-	-

TABLE 7

MARKETS

Projection of Detailed Expenditures by Fiscal Year ($000s)

Expenditures \ Fiscal Year	82	83	84	85	86	87	88	Total
Technical Assistance	-	500	500	300	300	300	100	2,000
Credit	-	450	2,300	2,400	3,500	4,550	4,800	18,000
Training	-	50	200	300	200	150	100	1,000
T o t a l	-	1,000	3,000	3,000	4,000	5,000	5,000	21,000

TABLE 8

COSTING OF PROJECT OUTPUTS/INPUTS
(In $000 or equivalent)

MARKETS

Inputs \ Outputs*	#1	#2	#3	Total
AID Appropriated (ESF)	2,000	18,000	1,000	21,000
Host Country	500	2,700	100	3,300
Total	2,500	20,700	1,100	24,300

*1. Planning, analysis and design for up to 72 markets.
2. Up to 72 new or rehabilitated markets.
3. Market managers, treasurers and officials trained in up to 72 LGUs; training for LGU and MHS/MPO staff.

TABLE 9

SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US$ 000)

MARKETS

Source / Use	AID		Host Country		Total
	FX	LC	FX	LC	
Technical Assistance	500	1,500	-	-	2,000
Credit	-	18,000			18,000
Training	300	700	-	100	1,100
Land	-	-	-	2,700	2,700
Administration	-	-	-	500	500
Total	800	20,200	-	3,300	24,300

FIGURE 2

MARKETS APPROVAL PROCESS

- PROCEDURES FLOWCHART -

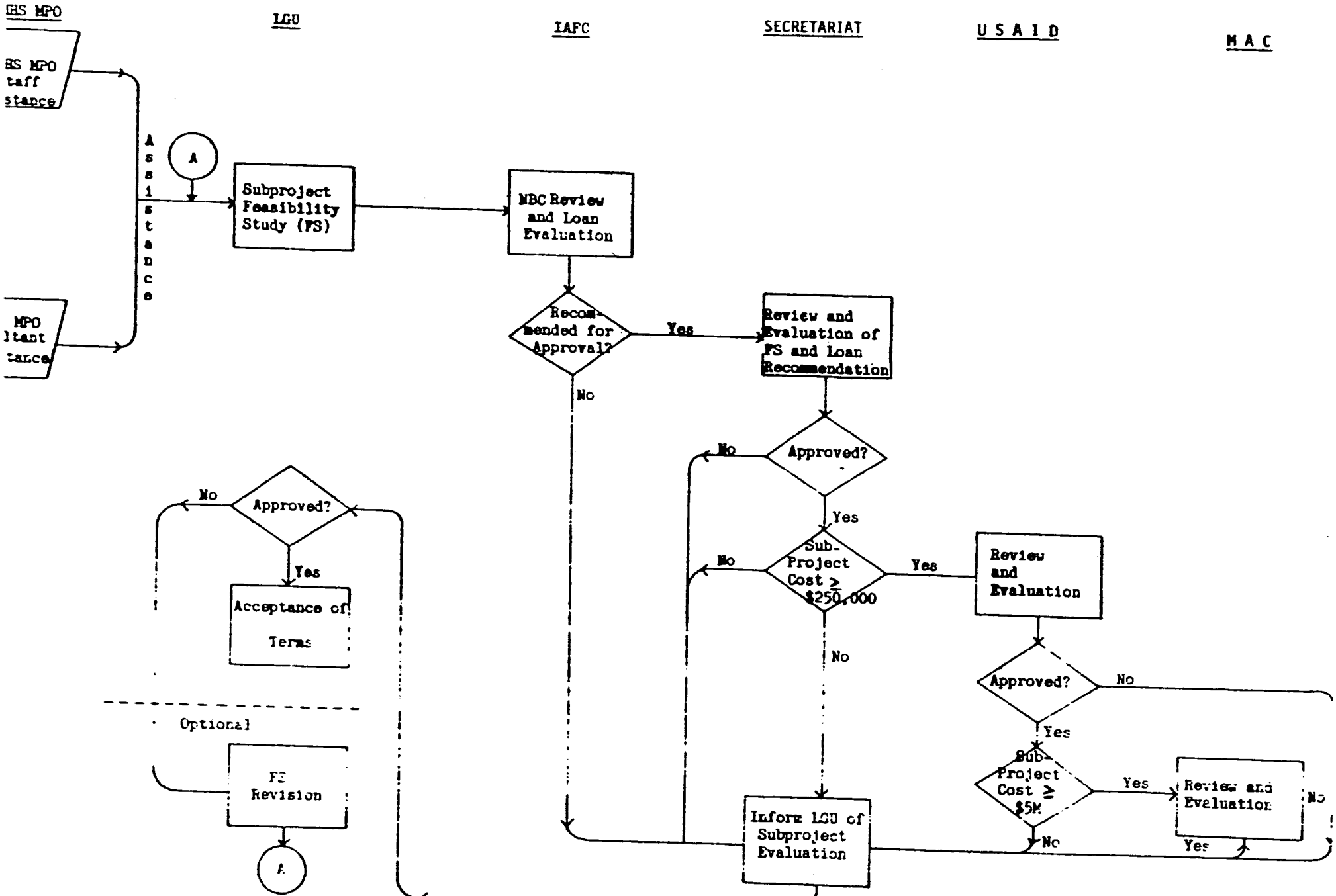


TABLE 11

STATEMENT OF PROJECTED MINIMUM RENT PER SQUARE METER PER MONTH
FOR MARKET PROTOTYPES A THROUGH J
FOR THE FIRST YEAR OF OPERATIONS

PROTOTYPE	ESTIMATED CONSTRUCTION COST	APPROX. POPULATION SIZE OF LOU	TOTAL NO. OF STALLS	OPERATING EXPENSES	INTEREST EXPENSE	PRINCIPAL PAYMENT	SINKING FUND FOR REPAIRS & IMPROVEMENT	TOTAL CASH OUTLAYS	SQUARE METERS AVAILABLE	SQUARE METERS FULL OCCUPANCY	SQUARE METERS UTILIZED	MINIMUM RENT PER SQUARE METER FULLY OCCUPIED PER YEAR	MINIMUM RENT PER SQUARE METER FULLY OCCUPIED PER MONTH	MINIMUM RENT PER SQUARE METER UTILIZED PER YEAR	MINIMUM RENT PER SQUARE METER UTILIZED PER MONTH
A	P2.0 million	37,050	124	194,840	180,000	-	-	374,840	1,488	1,414	1,062	266	23	360	30
B	3.0 "	55,560	186	296,100	270,000	-	-	566,100	2,232	2,121	1,563	267	23	363	31
C	4.0 "	74,075	247	288,000	360,000	-	-	748,000	2,964	2,816	2,075	266	23	361	31
D	5.0 "	92,600	309	507,800	450,000	-	-	957,800	3,704	3,519	2,593	273	23	370	31
E	6.0 "	111,120	371	650,880	540,000	-	-	1,190,880	4,452	4,230	3,117	282	24	383	32
F	7.0 "	129,650	433	753,940	630,000	-	-	1,383,940	5,196	4,937	3,637	281	24	381	32
G	8.0 "	148,150	494	857,000	720,000	-	-	1,577,000	5,928	5,632	4,150	281	24	380	32
H	9.0 "	166,700	556	980,220	810,000	-	-	1,790,220	6,672	6,339	4,671	283	24	384	32
I	10.0 "	185,200	618	1,096,600	900,000	-	-	1,996,600	7,416	7,046	5,192	284	24	385	32

TABLE 12

[illegible] OF PROJECTED MINIMUM RENT PER SQUARE METER PER MONTH
FOR MARKET PROJECTION B
FOR YEARS ENDING DECEMBER 31,1983 TO DECEMBER 31, 1992

[illegible] APPROX 97,600
ESTIMATED CONSTRUCTION COST: P5.0 million

(OPERATING EXPENSES REQUIRING CASH OUTLAY)

Lot	SALARIES /WAGES & OTHER BENEFITS	INSURANCE	OFFICE SUPPLIES & MATERIALS	MAINTENANCE	GARBAGE REMOVAL	CLEANING SUPPLIES	UTILITIES (ADMIN.)	MISC. EXP.	TOTAL	INTEREST	PRINCIPAL	SINKING FUND-REPLACE	TOTAL CASH OUTLAY	SQUARE METERS AVAILABLE	SQUARE METERS FULLY OCCUPIED	SQUARE METERS UTILIZED	% OF TOTAL AVAILABLE	MINIMUM RENT PER SQ. METER FULLY OCCUPIED PER YEAR	MINIMUM RENT PER SQ. METER FULLY OCCUPIED PER MONTH	MINIMUM RENT PER SQ. METER UTILIZED PER YEAR	MINIMUM RENT PER SQ. METER UTILIZED PER MONTH
[illegible]	260,400	75,000	27,900	12,300	30,000	15,000	12,000	25,000	387,800	450,000	-	-	937,800	3,304	3,519	2,981	70	272	23	370	31
[illegible]	284,440	82,500	30,690	13,730	33,000	27,500	13,200	27,500	330,500	450,000	-	-	1,008,500	3,304	3,519	2,963	80	287	24	341	29
[illegible]	313,084	90,750	33,750	39,125	60,500	30,250	14,520	30,250	614,430	447,776	55,782	50,000	1,167,936	3,304	3,519	3,334	90	332	28	351	30
[illegible]	346,392	99,825	37,125	43,238	66,550	33,275	15,972	33,275	675,682	442,284	61,864	50,000	1,[illegible]	3,[illegible]	3,519	3,519	95	330	30	330	30
[illegible]	384,252	109,808	40,848	47,583	73,205	36,603	17,360	36,608	743,471	436,788	68,738	50,000	1,295,000	3,304	3,519	3,519	95	368	31	368	31
[illegible]	419,177	120,788	44,933	52,342	80,526	40,263	19,326	40,263	817,818	430,520	72,908	50,000	1,371,336	3,304	3,519	3,519	95	389	33	389	33
[illegible]	461,314	132,867	49,427	57,576	88,578	44,289	21,258	44,289	899,599	423,672	79,846	50,000	1,453,117	3,304	3,519	3,519	95	413	35	413	35
[illegible]	507,446	146,154	54,369	63,333	97,436	48,718	23,383	48,718	989,539	416,182	87,836	50,000	1,543,877	3,304	3,519	3,519	95	439	37	439	37
[illegible]	558,191	160,769	59,806	69,667	107,179	53,589	25,723	53,589	1,088,515	407,389	95,529	50,000	1,642,833	3,304	3,519	3,519	95	467	39	467	39
[illegible]	614,010	176,846	65,787	76,633	117,887	58,944	28,298	58,944	1,197,366	399,028	1,044,488	50,000	2,710,884	3,304	3,519	3,519	95	[illegible]	62	[illegible]	62

The accompanying notes are an integral part of these financial projections.

Notes for Tables 11 and 12

NOTE 1. SIGNIFICANT ACCOUNTING PRINCIPLES: These financial projections are based on a flow of fund concept of accounting. The purpose of the projection is the computation of a minimum rent per square meter of space per unit of time, that is necessary to generate adequate funds to, at a minimum, meet the expenses and obligations that require cash outlays.

NOTE 2. ASSUMPTIONS: The projections are based on the following assumptions and are an integral part of these financial projections.

- Three hundred persons will support one stall. (Source: Human Settlement Regulatory Commission (HSRC).

  Land for subprojects will be provided by the Local Government Units. The cost associated with land will not be recovered through rents.

- Others as indicated in notes.

NOTE 3 SUBPROJECT LOAN: The subproject loans, equal to the estimate construction cost of each prototype, will bear an interest rate of 9% per annum for twenty-seven (27) years. The loans will require monthly payments with principal payments commencing in the third (3rd) year. The loan agreement will also carry certain covenants enumerated in notes to the projections.

NOTE 4. CONSTRUCTION COST: The construction cost of each prototype is based on the following assumptions:

- Land will be provided by the LGU. The cost of land will not be passed on to tenants in the form of rents.

- The average size of a stall and the related access area is twelve (12) sq. meters. The stalls and the related areas being six (6) sq. meters each. (Source: HSRC standard used throughout the country).

- The average construction cost (market and off-site improvements) of one (1) sq. meter is ₱1,350. Construction costs include architectural fees, labor, materials, construction period interest, a ten percent (10%) profit margin and three percent (3%) taxes. Costs are expected to increase at a rate of ten percent (10%) per year. (Source: Philippine Association of Builders).

NOTE 5. SINKING FUND FOR REPAIRS AND IMPROVEMENTS: Repairs (over ₱5,000) and improvements to subprojects will be handled through a sinking fund for repairs and improvements. An amount equal to one percent (1%) of the construction cost will be placed in the sinking fund in quarterly installments, beginning the third (3rd) year after construction. The maximum accumulation in this fund has been established at eight percent (8%) of the construction cost. The interest earned on this fund has been assumed to be equal to the withdrawal for repairs during the life of these projections.

NOTE 6. OPERATING EXPENSES: Operating expenses for prototype A-Z are shown in Schedule 1, Operating Expenses Requiring Cash Outlays Exclusive of Interest and Repairs for Market Prototypes, (see page) and are expected to increase at a rate equal to inflation, which is assumed to be ten percent (10%) per year.

(a) Salaries/Wages and Other Benefits are computed assuming a staff to square meter ratio of approximately 1:20. The average salary scales are presented below:

SALARY SCALES BY POPULATION

POPULATION	NO. OF PERSONS	AVE. MONTHLY SALARY
Below 50,000	10 - 15	₱565.00
50,000 - 100,000	18 - 30	625.00
50,000 - 100,000	31 - 35	700.00
Over 100,000	36 - 52	780.00
Over 100,000	53 - 60	810.00
Over 100,000	61 - 70	825.00

(b) Insurance Expense is computed at one-and-one-half (1 1/2%) percent of construction cost. Minimum insurance coverage in the amount of the loan will be mandated by the Loan Agreement.

(c) Office Supplies and Materials are computed at ₱75 per employee per month, which is fifty percent (50%) of that used by government offices

(d) Maintenance Expense is computed at sixty five hundredths of one percent (0.65%) of construction costs which approximates that used by the Development Bank of the Philippines.

(e) Garbage Removal Expense is computed at one percent (1%) of construction cost.

(f) Cleaning Supplies and Miscellaneous Expenses are computed at one half of one percent (1/2%) of construction costs each, while utility expenses of the administrative offices are estimated at ₱1,000 per month.

NOTE 7. RENTS: It is assumed that mechanisms will be established and enforced to increase rents to keep pace with inflation, and that approximately ninety-five percent (95%) occupancy, defined as full occupancy, will be reached by the end of the third (3rd) year. In computing the minimum rent required per square meter per month of utilized space for prototype D, it was assumed that the occupancy rates for years 1983, 1984 and 1985 are 70, 80 and 90% respectively, and that operating expenses were not affected by the lower occupancy levels.

SCHEDULE 1

OPERATING EXPENSES REQUIRING CASH OUTLAYS EXCLUSIVE OF INTEREST AND REPAIRS FOR MARKET PROTOYPES

	A ₱ 2.0M	B ₱ 3.0M	C ₱ 4.0M	D ₱ 5.0M	E ₱ 6.0M	F ₱ 7.0M	G ₱ 8.0M	H ₱ 9.0M	I ₱ 10.0M
Salaries/Wages and Other Benefits	88,140	142,500	187,500	260,400	355,680	411,840	468,840	544,320	613,800
Insurance	30,000	45,000	60,000	75,000	90,000	105,000	120,000	135,000	150,000
Office Supplies & Materials	11,700	17,100	22,500	27,900	34,200	39,600	45,500	50,400	55,800
Maintenance	13,000	19,500	26,000	32,500	39,000	45,5000	52,000	58,500	65,000
Garbage Removal	20,000	30,000	40,000	50,000	60,000	70,000	80,000	90,000	100,000
Cleaning Supplies	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000
Utilities (Administrative)	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Miscellaneous Expenses	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000
TOTAL	194,840	296,100	388,000	507,800	650,880	753,940	857,000	980,220	1,096,660

SCHEDULE 1

OPERATING EXPENSES REQUIRING CASH OUTLAYS EXCLUSIVE OF INTEREST AND REPAIRS FOR MARKET PROTOTYPES

	A ₱ 2.0M	B ₱ 3.0M	C ₱ 4.0M	D ₱ 5.0M	E ₱ 6.0M	F ₱ 7.0M	G ₱ 8.0M	H ₱ 9.0M	I ₱ 10.0M
Salaries/Wages and Other Benefits	88,140	142,500	187,500	260,400	355,680	411,840	468,840	544,320	613,800
Insurance	30,000	45,000	60,000	75,000	90,000	105,000	120,000	135,000	150,000
Office Supplies & Materials	11,700	17,100	22,500	27,900	34,200	39,600	45,500	50,400	55,800
Maintenance	13,000	19,500	26,000	32,500	39,000	45,5000	52,000	58,500	65,000
Garbage Removal	20,000	30,000	40,000	50,000	60,000	70,000	80,000	90,000	100,000
Cleaning Supplies	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000
Utilities (Administrative)	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Miscellaneous Expenses	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000
TOTAL	194,840	296,100	388,000	507,800	650,880	753,940	857,000	980,220	1,096,660

ANNEX A
Page 1 of 7

VZCZCML0598
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DE RUFHC 37473/01 3350415
ZNR UUUUU ZZH
O 010027Z DEC 81
FM SECSTATE WASHDC
TO AMEMBASSY MANILA IMMEDIATE 9900-01-02-03------
BT
UNCLAS STATE 317473

01 DEC 81
TOR: 0418
CN: 00045
CHRGE: AID

AID-6
INFO: CPU

7/IAW

AIDAC

E.O. 12065: N/A

TAGS:

SUBJECT: LIVELIHOOD DEVELOPMENT FUND PID (492-0365)

REF: A. GAIR TEAM REPORT
B. MANILA 24787
C. STATE 289115 (LOU)

1. SUMMARY: ON 11/6/81, APAC REVIEWED SUBJECT PID IN LIGHT OF REFS A, B AND C AND APPROVED PROCEEDING WITH DETAILED PROJECT DESIGN/PROJECT PAPER. IN SO DOING, APAC DETERMINED THAT DESIGN OF THE DENDRO-THERMAL COMPONENT SHOULD BE BASED ON ACTUAL VISAYAN SITES SELECTED FOR AID SUPPORT. DETAILED GUIDANCE FOR PP DESIGN FOLLOWS UNDER FOUR CATEGORIES. BESIDE GUIDANCE CONTAINED HEREIN, SPECIFIC RECOMMENDATIONS OFREFA REPORT AND SUB-REPORTS SHOULD BE CONSULTED AND INCORPORATED INTO PP TO THE MAXIMUM EXTENT PRACTICABLE. WHERE CURRENTLY APPLICABLE, THE MANAGEMENT, TECHNOLOGICAL AND SOCIOLOGICAL CONCERNS OF REF C SHOULD ALSO BE ADDRESSED PP. END SUMMARY.

2. DENDRO-THERMAL (WOOD-FIRED) POWER GENERATION COMPONENT.

A. SITE SELECTION AND FEASIBILITY ANALYSIS.

(1) BASED ON EXTENSIVE DISCUSSION APAC DECIDED THAT VISAYAN SITES BE IDENTIFIED AND ANALYZED FOR FEASIBILITY IN THE PP. APAC CONSIDERED BUT DECIDED AGAINST AN OPTION WHEREBY SITE SELECTION WOULD FOLLOW PROJECT AUTHORIZATION BECAUSE: A. AID WILL BE ASSISTING A SMALL NUMBER OF SUB-PROJECT SITES (THREE); B. THE SUB-PROJECTS CONSTITUTE LARGE-SCALE CAPITAL ASSISTANCE; AND C. WE UNDERSTAND THAT USAID/GOP HAVE PRELIMINARILY IDENTIFIED A FEW PROMISING SITES, THE NUMBER OF WHICH CAN BE REDUCED TO THREE DURING AN APPROPRIATELY TIMED PP DEVELOPMENT EFFORT.

(2) FOR EACH SITE, PP SHOULD OUTLINE HOW SITE LENDS ITSELF TO HOUSING THE POWER PLANT IN TERMS OF PHYSICAL CHARACTERISTICS, CAPABILITY OF LAND FOR CULTIVATING FUELWOOD, AND POTENTIAL USE OF GENERATED ELECTRICITY OVER THE SHORT AND LONG RUNS. PP SHOULD ALSO OUTLINE THE MAJOR EVENTS - IN THE FORM OF A CRITICAL PATH OR PERT ANALYSIS - FROM WHICH POSSIBLE BOTTLENECKS AND CONSTRAINTS

COULD BE IDENTIFIED AND RESOLVED. APAC FELT THAT THE CRITICAL PATH APPROACH IS ESSENTIAL FOR PLANNING AND CONTROLLING THE RELATIONSHIP AND SEQUENCE OF THE VARIOUS TECHNOLOGIES BE USED PROPOSED FOR PROJECT SITES.

(3) ECONOMIC ANALYSIS. SEVERAL DOCUMENTS AVAILABLE TO THE APAC WERE SUGGESTED TO GUIDE THE ECONOMIC ANALYSES OF PROJECT SITES. THESE INCLUDE: THE DE LUCIA (META SYSTEMS) BIOMASS ANALYSIS; THE CT MAIN FEASIBILITY STUDY OF MARCH, 1985; AND NEA'S OWN GUIDELINES FOR DENDRO-THERMAL PROJECTS.

B. TECHNICAL ANALYSES.

(1) ENERGY CROP MANAGEMENT. CONCERN WAS EXPRESSED ABOUT THE TECHNICAL CAPACITY OF NEA TO MANAGE AND SUPPORT THE ENERGY CROPPING ASPECT OF THE PROJECT (E.G. SPECIES DIVERSIFICATION, TREE IMPROVEMENT EFFORTS, GROWTH YIELD PROJECTIONS, OPTIMUM PLANTATION SIZE AND RELATED ISSUES). ACCORDINGLY, THE DETAILED ANALYSIS/DESIGN OF PROJECT SITES SHOULD INDICATE:--(A) WHAT TECHNICAL MANAGEMENT SKILLS ARE REQUIRED FOR NEA STAFF, BOTH AT SENIOR AND JUNIOR LEVELS AND AT CENTRAL AND FIELD SITES; (B) HOW NEA WILL PROVIDE THE REQUISITE TECHNICAL MANAGEMENT SKILLS; AND (C) NEA RECRUITMENT PLANS TO ENSURE THE STAFF REQUIRED AT THE THREE PROJECT SITES. OF LESSER PRIORITY THAN TECHNICAL COVERAGE AT THE SITES, BUT ALSO IMPORTANT, THE ANALYSIS SHOULD INDICATE HOW THE PROJECT WOULD HELP STRENGTHEN NEA'S OVERALL TECHNICAL MANAGEMENT OF ITS NATIONAL DENDRO-THERMAL PROGRAM.

(2) ENERGY CROPPING ANALYSIS. SPECIFIC TECHNICAL RECOMMENDATIONS FOR INCORPORATION INTO THE PP ARE: (A) A PROJECTION OF BIOMASS GROWTH AND YIELD FOR EACH OF THE THREE PROJECT SITES FOR THE FIRST TEN YEARS. THIS PROJECTION SHOULD BE BASED ON SITE SPECIFIC FACTORS SUCH AS:

--SOIL TESTS FOR EACH SITE TO INCLUDE PH AND MACRO AND MICRO NUTRIENTS (E.G. PHOSPHORUS, MODYBDENUM, ETC.) FOR OPTIMUM TREE GROWTH (IF SOIL IS ACID, OR IF NUTRIENTS ARE NOT ADEQUATE FOR OPTIMUM TREE GROWTH, WHAT ARE THE ECONOMICS OF NECESSARY SOIL AMELIORATION?);

TERRAIN IRREGULARITY, SLOPE, AND EROSIVITY;

SOIL FERTILITY, MINERAL STATUS AND TRACE ELEMENTS;

RAINFALL AMOUNT, SEASONAL DISTRIBUTION, AND SOIL DRAINAGE;

EXISTING BIOMASS ON OR ADJACENT TO SITE; AND

BEST AVAILABLE DOCUMENT

INNOCULATION OF LEGUME TREE SEEDS WITH RHYZOBIUM BEFORE PLANTING.

(B) FOR EACH PROJECT SITE, A SPECIFIC SPECIES DIVERSIFICATION AND TREE IMPROVEMENT MANAGEMENT PLAN SHOULD BE ELABORATED. THIS PLAN, AS WELL AS GROWTH AND YIELD PREDICTIONS, SHOULD TIE INTO THE CRITICAL PATH APPROACH SUGGESTED ABOVE AS WELL AS INTO A WELL DEFINED AND FLEXIBLE EVALUATION ACTIVITY THAT PERMITS MID-COURSE MODIFICATION OF THE PROJECT.

(C) A SEED QUALITY CONTROL PROGRAM FOR EACH SITE (CERTIFIED VARIETIES WITH KNOWN PROVENIENCES SHOULD BE IDENTIFIED).

(D) DETAILED, SITE-SPECIFIC ANALYSIS FOR HARVESTING, TRANSPORTATION SYSTEMS, AND FEEDSTOCK PREPARATION (E.G. DRYING, CHIPPING, WHOLE LOG PROCESSING, ETC.). THIS ANALYSIS SHOULD INCLUDE AN EXAMINATION OF CURRENT PRIVATE AND GOP OPERATIONS. IN SELECTING CONSULTANTS FOR THE

ENERGY CROPPING TECHNICAL ANALYSIS, THE PAC SUGGESTS PREFERENCE FOR FIRMS/INDIVIDUALS WITH EXPERIENCE IN TREE FARM PRODUCTION SYSTEMS.

(3) EQUIPMENT: THE PP SHOULD INCLUDE A DETAILED PROCUREMENT PLAN. IT SHOULD IDENTIFY HOW THE ITEMS WILL BE PROCURED AND BY WHOM. IT SHOULD IDENTIFY THE ELECTRICAL/MECHANICAL EQUIPMENT AND MACHINERY TO BE USED THAT THE AID-ASSISTED PLANTS, INCLUDING THE NOMENCLATURE OF SUCH EQUIPMENT AND ALL AUXILIARY COMPONENTS, CONNECTIONS, CONTROL SYSTEMS, ETC. TO SUPPORT THE REQUIRED COST ESTIMATE. THE PP SHOULD INDICATE THOSE COMPONENTS AVAILABLE OFF THE SHELF AND THOSE THAT MUST BE MANUFACTURED FOR THE PROJECT AND THE LEADTIME FOR EACH. THE PP SHOULD INDICATE IF THE TRANSMISSION/DISTRIBUTION NET IN EACH LOCATION ALREADY EXISTS OR IF SUCH NET(S) ARE TO BE PROJECT FUNDED. IN ADDITION, THE PP SHOULD INCLUDE A LISTING OF ALL SUPPORT EQUIPMENT (WOOD HARVESTING MACHINERY, TRANSPORT VEHICLES, ETC.). A MAINTENANCE/SERVICE PLAN FOR ALL PROJECT EQUIPMENT AND MACHINERY SHOULD ALSO BE INCLUDED.

C. FINANCIAL ANALYSIS. BASED ON REF A REPORT, APAC EXPRESSED CONCERN THAT FARMERS IN THE FARMER ASSOCIATIONS (FAS) MAY NOT FULLY UNDERSTAND THE FINANCIAL AND CREDIT ARRANGEMENTS BEING PROPOSED DURING SITE DEVELOPMENT (I.E. THE FIRST FOUR YEARS) AND ESPECIALLY ARRANGEMENTS DURING THE REPAYMENT YEARS. FOR EXAMPLE, PAYMENTS TO FARMERS CURRENTLY PARTICIPATING MAY BE PERCEIVED AS DAILY WAGES RATHER THAN DISBURSEMENTS FROM A MEDIUM-TERM GOP LOAN TO THE ELECTRIC COOPERATIVES (ESPECIALLY IF THERE IS NO LAND-LEASE IN EFFECT). THE PP SHOULD FULLY DESCRIBE HOW THE PROJECT WILL OPERATE FINANCIALLY WITH SPECIAL ATTENTION TO HOW THE FAS AND PARTICIPATING FARMERS WILL BE EDUCATED TO FULLY UNDERSTAND THE FINANCIAL COMMITMENTS INVOLVED. FURTHER, THE PP SHOULD INCLUDE A FINANCIAL CASE-STUDY, INCLUDING PROJECTED FINANCIAL STATEMENTS (E.G. BALANCE SHEET, INCOME AND EXPENSE, SOURCES/USES OF FUNDS, ETC.) SHOWING HOW THE PROJECT WILL BE FINANCIALLY

VIABLE AT THE COOPERATIVE, FA AND INDIVIDUAL FA MEMBER LEVEL. THE CASE-STUDY SHOULD COVER AT LEAST ONE HARVEST PERIOD AND SHOW HOW TIMBER SALE REVENUES WILL COVER COSTS INCURRED O THE POINT OF SALE. KEY ASSUMPTIONS SHOULD BE SET FORTH, PARTICULARLY AS TO HOW THEY WOULD PERTAIN TO THE THREE SITES PROPOSED FOR AID SUPPORT.

D. ORGANIZATIONAL ASPECTS.

(1) THE FAS ARE RECOGNIZED AS THE GRASS-ROOT LEVEL

ORGANIZATIONS THAT WILL BE DEPENDED UPON TO PROVIDE A STEADY AND SUFFICIENT SUPPLY OF WOOD FOR THE DENDRO-THERMAL PLANTS. FOR PP PREPARATION, A SURVEY SHOULD BE TAKEN OF THE EXPERIENCE/PERFORMANCE TO DATE OF EXISTING FAS. FINDINGS AND RECOMMENDATIONS OF THE REVIEW SHOULD BE PRESENTED IN THE PP ALONG WITH A DESCRIPTION OF FA EXPERIENCE TO DATE AND LESSONS LEARNED THAT WILL BE USED TO IMPROVE THE PROSPECTS FOR PERFORMANCE UNDER THE AID-SUPPORTED PROJECT.

(2) BASED ON THE SURVEY OF EXISTING FAS, THE PP SHOULD SET FOR H IN DETAIL HOW THE VARIOUS ORGANIZATIONS - FAS, ELECTRIC COOPERATIVES, NEA, OTHERS - WILL INTERRELATE AND FUNCTION FOR PROJECT IMPLEMENTATION. OF SPECIAL INTEREST HERE WILL BE DENDRO PLANT MANAGEMENT AND LAND-LEASE ARRANGEMENTS. THE PP SHOULD DESCRIBE BOTH, ESPECIALLY LEASE ARRANGEMENTS IN DETAIL (E.G. THE PARTIES, LEGAL RIGHTS AND OBLIGATIONS, TENANCY, ETC.), AND CONTAIN A COPY OF THE LEASE FORM TO BE USED AT THE AID-SUPPORTED SITES. A KEY QUESTION FOR USAID CONSIDERATION IS WHETHER AN EXECUTED LEASE, ACCEPTABLE TO AID AND THE PARTIES, SHOULD BE A CONDITION PRECEDENT TO DISBURSEMENT AT EACH OF THE THREE PROJECT SITES.

E. IMPLEMENTATION AND MONITORING. THE IMPLEMENTATION PLAN OF THE DENDRO-THERMAL COMPONENT SHOULD BE OUTLINED BY PUTTING THE MAJOR EVENTS IN THE CRITICAL PATH ANALYSIS, INCLUDING INTERVENTIONS THAT WOULD RELIEVE POTENTIAL BOTTLENECKS.

3. GASIFIERS FOR IRRIGATION AND CHARCOAL PRODUCTION COMPONENT.

A. IN GENERAL, THE APAC RECOMMENDS THAT THE PP CONTAIN THE SAME CATEGORIES OF ORGANIZATIONAL, FINANCIAL AND TECHNICAL MANAGEMENT ANALYSES (WITH APPROPRIATE MODIFICATIONS) AS RECOMMENDED ABOVE FOR THE DENDRO-THERMAL COMPONENT. THE TIMING AND MAGNITUDE OF EQUIPMENT FINANCING AND ARRIVAL SHOULD BE DEALT WITH IN THE CONTEXT OF THESE ISSUES. IN ADDITION, THE PP SHOULD PRESENT A SUMMARY OF THE JAPANESE ATTEMPT TO DEVELOP CHARCOAL PRODUCTION IN THE PHILIPPINES AND HOW LESSONS LEARNED IN THAT EXPERIENCE WILL BE USED IN THE IMPLEMENTATION OF THIS PROJECT COMPONENT.

B. THE ECONOMIC ANALYSIS SHOULD EXPLICITLY TREAT THE FOLLOWING ITEMS, AMONG OTHERS: APPROPRIATE SCALE OF THE GASIFIERS AND CHARCOAL OPERATIONS; LOCATION OF KILNS

RELATIVE TO RAW MATERIALS; TRANSPORTATION COSTS; PROCESSING REQUIREMENTS; AND ASSUMPTIONS RELATED TO ALL THESE. IN THIS CONNECTION, SPECIFIC PP ATTENTION SHOULD BE GIVEN TO MARKET AND DEMAND PROJECTION AND TO WHO MARKETS THE CHARCOAL.

4. MARKET MANAGEMENT/CONSTRUCTION COMPONENT.

A. MARKETING SYSTEM APPROACH. APAC APPROVAL FOR DETAILED DESIGN OF THE MARKET MANAGEMENT/CONSTRUCTION COMPONENT - BOTH SOFTWARE AND HARDWARE - IS BASED ON PRELIMINARY INFORMATION CONTAINED IN REF B AND AMPLIFIED IN ASIA/PTB'S 10-30-81 MEMO TO THE PROJECT COMMITTEE. THE APAC IS ASKING THAT ANY SIGNIFICANT DEVIATION FROM THE APPROACH OUTLINED BE EXPLAINED IN THE PP. ALSO, THE APAC WAS MINDFUL OF THE DANGER THAT MARKET MANAGEMENT/CONSTRUCTION ACTIVITY MAY BE IMPLEMENTED WITHOUT REFERENCE TO THE MARKET SYSTEM AS A WHOLE. THEREFORE, APAC STRESSED THAT DESIGNERS FOCUS ON IMPROVING THE PUBLIC MARKETS AS SOURCES OF REVENUE GENERATION FOR LOCAL GOVERNMENTS.

B. DEMAND FOR MARKET FACILITIES. THE APAC RECOMMENDS THAT THE PP INCLUDE AN ANALYSIS OF MUNICIPALITY DEMAND FOR MARKET FACILITIES, WHETHER THROUGH REMODELING, REPLACEMENT OR THE CONSTRUCTION OF NEW FACILITIES. SPECIFICALLY, THE PP SHOULD CONTAIN (1) THE SET OF CRITERIA - - - SED TO SELECT SITES AND (2) A LISTING OF PROBABLE OR POTENTIAL SITES AND PRELIMINARY COSTS ESTIMATES FOR EACH THE LIST SHOULD TOTAL NOT LESS THAN 50 PERCENT (AND PREFERABLY MORE) OF THE FUNDING LEVEL REQUESTED FOR THIS COMPONENT. FINANCIAL VIABILITY IS ONE KEY CRITERION AND THE PP SHOULD EXPLAIN HOW IT WILL BE DETERMINED AT EACH SITE.

C. DESIGN, CONSTRUCTION AND SUPERVISION PROCEDURES. THE PP SHOULD FULLY DESCRIBE THE PROCESS BY WHICH PROJECT MARKETS WILL BE DESIGNED, CONSTRUCTED AND THE MANNER IN WHICH THE WORKS WILL BE SUPERVISED. SINCE THE DESIGN OF EACH MARKET WILL LIKELY VARY, THE APAC SUGGESTS THAT CARE

BE TAKEN TO DEVELOP A DESIGN APPROACH THAT WILL REALISTICALLY DETERMINE WHEN REMODELING (VERSUS REPLACEMENT) IS FEASIBLE AND WHEN IT IS NOT ON A COMPARATIVE COST BASIS.

5. OTHER ITEMS.

A. PROPOSED CHANGE IN FUNDING LEVEL. AS REQUESTED IN

REF B, TOTAL FUNDING FOR THIS PROJECT IS BEING REDUCED BY DOLS 1.0 MILLION TO DOLS 46.0 MILLION FROM THE DOLS 47.0 MILLION SHOWN IN THE PID. SEPTEL FOLLOWS ON INCREASE IN PROJECT DESIGN FUND (492-0343).

B. ENVIRONMENTAL. THE PID REQUESTED A NEGATIVE DETERMINATION AS TO THE NEED FOR AN ENVIRONMENTAL ASSESSMENT (EA). HOWEVER, THE PROJECT'S DENDRO-THERMAL, CHARCOAL/GASIFICATION AND MARKET COMPONENTS HAVE POTENTIAL FOR CREATING ADVERSE IMPACTS ON THE ENVIRONMENT. THE APAC RECOMMENDS THAT AN EA BE CONDUCTED ON THESE COMPONENTS AS PART OF PP PREPARATION. ADDITIONAL GUIDANCE ON EA TO FOLLOW IN SEPTEL.

C. TIMING OF PP DEVELOPMENT. THE PID PROPOSED PP COMPLETION AND REVIEW IN THE FIRST QUARTER OF FY 82. BASED ON THE NUMBER AND COMPLEXITY OF DESIGN TASKS REQUIRED, THE APAC RECOMMENDS THAT THE USAID/GOP NOT FEEL PRESSED TO TRANSMIT PP AND THAT NECESSARY TIME BE TAKEN IN THE COLLABORATIVE DEVELOPMENT OF THIS PROJECT. A - - - - - - THIRD QUARTER TARGET FOR PP COMPLETION WOULD APPEAR MORE REALISTIC.

D. PROCEDURES AND RATES OF LDF DISBURSEMENT.

(1) THE PRIMARY PURPOSE OF THE LDF AND OTHER ESF PROJECTS IN THE PHILIPPINES IS COMPLIANCE WITH THE COMPENSATION ARRANGEMENTS ASSOCIATED WITH THE AMENDED MILITARY BASES AGREEMENT. CONSEQUENTLY, PROCEDURES FOR AND RATES OF DISBURSEMENT OF LDF PROJECT FUNDS ARE -KEY CONSIDERATIONS. THE PP SHOULD SHOW, IN A SEQUENTIAL ORDER, WHAT THE USAID MUST KNOW AND DO BEFORE DISBURSEMENTS, EITHER IN DOLLARS OR PESOS, ARE MADE. THE APAC RECOMMENDS THAT,

FOR EACH LDF COMPONENT, SPECIAL CARE BE TAKEN TO DEFINE DISBURSEMENT PROCEDURES, TO REALISTICALLY ESTIMATE-DISBURSEMENT RATES, AND TO CLEARLY OUTLINE BOTH IN THE PP. (2) DURING DETAILED DESIGN, IT MAY BE POSSIBLE TO IDENTIFY APPROPRIATE GOP EXPENDITURES ALREADY MADE FOR PROJECT COMPONENTS. IF THE USAID WISHES TO PROVIDE FOR AID REIMBURSEMENT FOR EXPENDITURES ON A RETROACTIVE BASIS, PLEASE ADVISE AID/W WELL IN ADVANCE OF PP PRESENTATION IN ORDER THAT NECESSARY CLEARANCE OF THIS-APPROACH MAY BE OBTAINED.

E. TDY ASSISTANCE. AID/W PREPARED TO HELP ARRANGE NECESSARY TDY ASSISTANCE FOR PP PREPARATION. PLEASE ADVISE REQUIREMENTS AND DESIRED TIMING ASAP. HAIG

PROJECT CHECKLIST

A. GENERAL CRITERIA FOR PROJECT

1.	81 App. Act. Unnumbered; Sec. 653(b). (a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?	a) Congressional Notification b) Yes
2.	FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	a) Yes b) Yes
3.	FAA Sec. 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 the assistance?	N/A
4.	FAA Sec. 611(b); 31 App. Act. Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?	Where water and water related land resource construction is concerned such principles and standards will be met.

5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	Yes
6.	FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No. Project is not intended to encourage regional development.
7.	FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c)encourage development and use of unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve tehnical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	a) Project will not directly encourage international trade. b) Project will foster private initiatives and competitions. c) Project will not directly encourage cooperative institutions. d) Project will discourage monopolitic practices. e) Project will benefit industry, agriculture and commerce. f) Project will not encourage free labor union.
8.	FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprises).	Project is not designed to have this objective.

9.	FAA Sec. 612(b); Sec. 636(h); Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U S. are utilized in lieu of dollars.	GOP will contribute local currencies to meet the cost of contractual and other services only in exchange for ESF dollar support of their program; the Philippines is not an excess currency country.
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
12.	App. Act. Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	The project will not produce such commodities.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria.

2. Development Assistance Project Criteria (Loans Only).

3. Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? Yes

To the extent possible, does it reflect the policy directions of FAA Section 102? Yes

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No

STANDARD ITEM CHECKLIST

A. Procurement.

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in the U.S.? Yes

4.	FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). 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? (Exception where commodity financed could not be reasonably procured in U.S.)	N/A
5.	FAA Sec. 603. Is the shipping excluded from compliance with requirement in Section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners and tankers) financed shall be transported on privately-owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates?	No
6.	FAA Sec. 621. If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services from private enterprise, be furnished on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Technical assistance will be furnished on a contractual basis. No arrangements with other Federal agencies are anticipated.

7.	International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-- flag carriers will be utilized to the extent such service is available?	Yes
8.	81 App. Act. Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes

B. Construction.

1.	FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?	Local contractors will be used for the majority of services, which in this case, is consistent with national interest.
2.	FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	Yes
3.	FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?	Yes

C. Other Restrictions.

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?	N/A
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	Yes
4. Will arrangements preclude use of financing:	
a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization?	Yes
b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?	Yes

c.	FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained.	Yes
d.	FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes
e.	FAA Sec. 662. For CIA activities?	Yes
f.	81 App. Act. Sec. 503. To pay pensions, annuities retirement pay, or adjusted service compensation for military personnel?	Yes
g.	81 App. Act. Sec. 505. To pay U.S. assessments, arrearages or dues.	Yes
h.	81 App. Act. Sec. 506. To carry out provisions of FAA Section 209 (d) (Transfer of FAA funds to multilateral organizations for lending.)	Yes
i.	81 App. Act. Sec. 510. To finance the export of nuclear equipment fuel, or technology or to train foreign nationals in nuclear fields?	Yes
j.	81 App. Act. Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the	

	government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	Yes
k.	81 App. Act. Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes

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

I, Anthony M. Schwarwalder, 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 by the United States, do hereby certify that, in my judgement, the Philippines has both the financial capability and the human resources capability to effectively implement, utilize and maintain the propoced Public Markets Project.

This judgement is based upon the project analysis as detailed in the Markets Project Paper and is subject to the conditions imposed therein.

Anthony M. Schwarzwalder
Director
USAID/Philippines

27 July '82
Date

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

PROJECT AUTHORIZATION

PHILIPPINES

Markets Project
Project No. 492-0365

Pursuant to Part II, Chapter IV, Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Markets Project for the Republic of the Philippines (Cooperating Country) involving planned obligations of not to exceed Twenty-One Million United States Dollars ($21,000,000) in grant funds over a three (3) year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.

The Project is one of a series designed to provide ESF assistance of $200 million pursuant to the Amended Bases Agreement between the Cooperating Country and the United States. The Project consists of furnishing credit to participating cities and municipalities to finance the construction or improvement of market facilities, technical assistance to improve systems for market management and financial accounting, and training. The A.I.D. grant will finance the foreign exchange requirements of technical advisory services, training, and commodities, as needed, and will provide annual dollar transfers in exchange for the improvement by the Cooperating Country of market operations and market facilities' construction/rehabilitation by appropriating and using for agreed local currency costs an amount of pesos equivalent to the annual dollar transfer.

The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions and A.I.D. may deem appropriate.

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. Project shall have their source and origin in the United States or the Cooperating Country except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be only of flag vessels of the United States.

b. Conditions Precedent to Dollar Transfer in Support of Disbursement of Credit Operations

Prior to the first dollar transfer in support of credit operation under the Project, the Cooperating Country shall furnish to A.I.D. the following in form and substance satisfactory to A.I.D.:

(1) Evidence that the Cooperating Country has established community review procedures, location criteria and construction design standards for construction/rehabilitation of market facilities.

(2) The first subproject report containing: evidence that the city or municipality is capable of administering the proposed subproject, an analysis of the present facility and its operation, recommendations for immediate improvements and/or new construction, alternate solution studies, cost data and a feasibility study including the economic, financial, technical, engineering, locational, social and environmental aspects of the subproject.

(3) A copy of the executed agreement between the Secretariat and Philippine National Bank (PNB) for administration of subproject loans made to cities and municipalities.

c. Special Covenants

(1) Any changes in the approved financial terms conditions and procedures for the handling of any subproject loans of the Project shall be approved by the Cooperating Country and A.I.D.

(2) Any agreements entered into during the life of the Project between a city or municipal government and other government entities or private enterprises for the management or utilization of profits of markets funded by the Project shall have the written approval of the Secretariat before being executed.

(3) Any agreements (debt or equity) entered into during the life of the Project between the city, the municipality, the Secretariat, and/or the PNB and any other financial organization for financing markets included in the Project shall have the written approval of the Secretariat before being executed.

(4) Any agreements entered into during the life of the Project between a city or municipal government and the Secretariat shall contain the following covenants: (a) the market(s) financed under the Project will be recognized as a separate cost center within the local government unit and (b) appropriate insurance, in the amount of the loan, will be obtained for the market.

(5) Credit extended under the Project shall be made available to qualified cities and municipalities outside those encompassed in Metro-Manila and those eligible for financing under the Municipal Development Fund, unless A.I.D. otherwise agrees in writing.

(6) The Cooperating Country shall adhere to and use in implementation of the Project the contracting manuals for procurement of goods and services, the manual for financial services and the standard Secretariat/City/Municipality Agreement, approved as Conditions Precedent to Disbursement to the ESF funded Municipal Development Fund Project.

(7) The Cooperating Country shall use, as a basis for approving all other subprojects, the same type of subproject analysis and feasibility report as approved by A.I.D. as a condition for initial release of the dollar transfer in support of the credit component of this Project.

Signature _____
M. Peter McPherson
Administrator

26 AUG 1982
Date

Clearance:
Eugene S. Staples, A/AA/ASIA /s/ Date 8/20/82
John R. Bolton, AA/PPC /s/ Date 8/20/82
Chandler L. van Orman, GC /s/ Date 8/20/82

GC/ASIA:STisa:hp/dw:8/26/82:28092

GROWTH CENTER STRATEGY

Introduction:

In order to avoid further congestion of the Metropolitan Manila Area (MMA), the Ministry of Human Settlements (MHS) identified a hierarchy of "growth centers" to provide the locational focus for the development of rural areas and thus contribute to a more equitable pattern of future development.

In the context of national development, through integrated development, the MHS formulated a hierarchy of settlements to support the various sectors of the economy by providing locational direction to the different activities set for national growth, and thus attain spatial coordination of development inputs.

The problem of under-development is basically rooted in the dominance of the MMA. Rural migration has always been drawn towards this metropolis which has been congested throughout the years. If urban growth continues to concentrate in MMA, urban problems will intensify. Consequently, growth centers were identified to serve as focal points for the development of areas outside MMA and consequently for the whole country.

The Strategy

Policy: The growth center strategy is an attempt to minimize the inflow of migrants to and decrease the glaring predominance of MMA. It aims to redistribute population and employment into other areas of the country, which on a national scale entails the identification and channeling of resources into growth centers.

Definitions: Generally, the growth center is a city/municipality with a relatively high level of development, and must be urban in context. It is an urban settlement with potentials of growth that can provide economics of scale to industries, as well as employment, and qualities of urban life sought by most people.

Specifically, it is a city/municipality with a projected population of 25,000 and above for the year 2000, is strategically located within a group of cities and municipalities, and serving cities/municipalities within a radius of approximately 15 kilometers.

Methodology: The selection of growth centers was based on population trends and population potentials based on geographical centrality of an area.

1. Population - a city/municipality must at least have a population size of 25,000 for the year 2000. A city or municipality which reaches this size will achieve dynamism which will enable it to develop by its own potentials.

2. Geographical Centrality - a city/municipality must be located in a strategic area to enable service to most of the cities/municipalities within its scope. This is measured by the accessibility index which takes into account the population size and distances of the cities/municipalities from one another.

This measure, accessibility index, is expressed by the following formula:

$$PPi = \sum_{j=1} \frac{Pj}{Dij}$$

where: PPi = accessibility index of place i

Pj = population of place j

Dij = distance from i to j

Some other factors taken into consideration in the selection area:

1. topography
2. presence and/or absence of roads
3. feasibility of development due to favorable characteristics of the site.

In view of these criteria, the growth centers are classified into four levels:

Level I - Metropolitan Center

a. population - 1,000,000 and over

b. comprises a major city with its outlying districts of satellite communities

c. region - serving facilities are available

Level 2 - Regional and Sub-regional Center

a. population - 250,000 to 999,999

b. regional centers are designated as the administrative headquarters and the seat of regional offices of government agencies serving the region

c. sub-regional centers do not have the administrative functions of the government, but offer a complete range of urban services and facilities in support of the regional center

Level 3 - Major Urban Center

a. population - 80,000 to 249,999

b. designated as the trade centers of resource frontiers and the nuclei of other leading development areas

c. availability of urban activities to serve the province

Level 4 - Minor Urban Center

a. population - 25,000 to 79,999

b. designated as the agricultural service centers

c. have potentials for development as intermediate sized centers

d. with a range of urban services and facilities to complement the major urban centers of the province

SOURCE: Technical Report on Growth Centers, Ministry of Human Settlements, Policy and Research Section 1978

COMPUTATION OF MINIMUM SERVICE POPULATION

ASUMPTIONS:

A. One stall, operated seven (7) days a week, is supported by 300 persons 1/

B. Average stall size = 6 sq. meters (range 2 - 12 m^2) 2/

C. Average stall access area = 6 m^2. 3/

D. Average construction cost per m^2 (new stall)

1982 = ₱1,350 4/ (range ₱1,200 to ₱1,500
1983 and thereafter = prior years cost + 10%

E. Minimum loan = $250,000 = $250,000 x 8.2 = ₱2,050,000

F. Number of existing LGU stalls and number of commercial market stalls = 0

COMPUTATION:

$$\text{Total number of stalls} = \frac{\text{Population of LGU}}{300}$$

Number of LGU stalls = Total number of LGU stalls - (number of existing LGU stalls + number of commercial market stalls)

Total area of LGU market(s) = Number of stalls x (6 m^2 - 6 m^2)
Average cost of new LGU market(s) = Number of new stalls x 12 m^2 x ₱1,350/m^2

1/ Human Settlement Regulatory Commission (HRSC)
2/ HRSC standard used throughout the Philippines
3/ Architects guidance for a well ventilated and lighted market
4/ Average cost of most recent LGU markets constructed and commercial market construction cost provided by the Philippine Association of Buidlers

Average cost of LGU market = $\frac{\text{Population of LGU} \times 12 \times 1,350}{300}$

If population of LGU = 38,000 persons

$= \frac{38,000 \times 12 \times 1,350}{300} = ₱2,050,000$

*Cost includes all construction costs plus 10% profit

SOCIO-ECONOMIC ANNEX

A. Introduction

Determining the economic feasibility of any public investment in a utility project requires that the broad social and economic benefits of the project outweigh the associated socio-economic costs. Consequently, the socio-economic analysis of the Markets Project is much broader in scope than the financial analysis. Among other things, the financial analysis must be broadened to include the project's "externality" impacts, such as its impact on social and economic development goals.1/

The Philippine economy is at a level of development where organized markets are a necessary part of the infrastructure required to support the flow of goods and services from producers to consumers. Markets, in which private vendors occupy space, are an efficient, inexpensive way of distributing goods and services. They are particularly important in meeting the needs of low-income consumers. Markets in the Philippines, are characterized by a large number of small traders operating under a highly competitive free enterprise system. Each trader, in turn, supplies a large number of actual and potential buyers. These markets provide socio-economic services to the entire population in their respective service areas. They also make a crucial contribution to national needs and goals. As indicated in the Background Section of this PP, without such markets, the whole distribution system will function less well and at a much higher cost. This project aims to improve the structure and performance of the existing market system by funding the development of new and rehabilitated facilities and by improving their operating performance.

Almost 15 percent of project funds are for technical assistance and training. It is assumed that the technical assistance will contribute to the meeting of project objectives.

1/ Economic feasibility requires that socio-economic benefits and costs be measured from the perspective of the national economy rather than the specific subproject. Hence, emphasis is placed on the potential impact on GNP of the total project. This compares to the financial viability of a subproject which is basically determined by measuring the potential revenue to be raised by a subproject, comparing this against the expected costs, and using the difference to indicate whether the subproject will service its loan.

In particular, technical assistance and training are assumed to result in optimal market sites and in the design and construction of facilities appropriate for the LGU. It is further assumed that the combination of technical assistance and training achieves its goal of improving the management and operation of markets. These costs are assumed to be necessary in achieving the broader benefits anticipated from the construction activities. In reality, substantial externalities exist as the benefits of these activities will go substantially beyond the markets directly supported . Major markets in other service areas as well as smaller markets within the targeted areas will benefit materially in terms of management and technical ideas and support.

B. Methodology

Although the methodology used to assess the economic costs and benefits of public utility investment projects is theoretically straight-forward and well defined, the application of this methodology in the present case is fraught with practical difficulties. This analysis draws on published information, on visits to selected markets, on discussions with market specialists and on meetings with numerous LGU officials. Detailed recent academic analyses and studies on distributive marketing in general, and urban markets in particular, in the Philippines are nonexistent. For example, willingness-to-pay estimates have been generalized from limited surveys conducted under differing methodologies. A broad, national average "shadow price" for labor, suggested by the National Economic and Development Authority, must be used to compensate for price distortions which may be of greater or lesser importance at the local, subproject level. Finally, as in the case of financial viability, the economic viability of the project will depend upon the economic viability of each and all subprojects. However, since subproject sites have yet to be chosen and, indeed, will be selected based on growth center criteria and on financial and economic viability, the approach taken in this analysis is to present best available information for an expected representative prototype subproject.

The project will support several different types of market subproject developments. The actual type will depend upon the location and condition of the existing facility(ies), the availability of land, urban growth factors, planning considerations, and so on. Some of the subproject types are as follows:

1. Relocate the existing market to a larger and less congested site that is as well or better situated relative to the population served.

2. Build an enlarged and improved facility on the existing site by expanding onto some adjacent land.

3. Build an enlarged and improved facility on the existing site by expanding upwards with a multi-story structure.

4. Rebuild the existing facility together with one or more new facilities in well selected locations, such as near heavily populated residential areas. This would enable enough of the activity from the existing market to be relocated to a new market(s), thereby allowing the existing facility to more easily handle its new load. The central market activities could be shifted to the new market if desirable.

5. Build one or more markets in new locations away from the existing market. Again, the new market(s) will draw away some of the load and congestion .

This analysis is based on the first prototype of subproject possiblity. Other subprojects will have somewhat different benefits and costs. However, by showing that the first type of subproject is economically feasible, all other types of subprojects will be similarly feasible. The actual subproject that is appropriate in each set of LGU circumstances will be determined by the feasibility study for that proposed subproject. A detailed analysis of each subproject alternative at this point of the project would be both misleading and pointless.

The analysis attempts to quantify the socio-economic benefits and costs with and without the project, as derived from a particular likely subproject; the difference represents the impact of the project. Although not all of the benefits and costs can be measured, enough can be measured to give an order of magnitude of the internal rate of return (IRR) for the project. It should be closely noted that the benefits not specifically quantified will significantly exceed the costs not included. Consequently, the estimated IRR will be understated.

A market, like other improved real estate, generates a stream of benefit services. The willingness of people to pay for these services will be indicated by rental fees, leasehold transfer fees, entrance fees, avoided costs, wages, etc. Under near perfect conditions, measurable amounts could be used to estimate the economic surplus resulting from the operation of markets. In reality, practical difficulties abound . Nevertheless, this analysis accurately determines incremental project benefits . The cost side of the IRR also focuses on the incremental project effects. However, this side of the analysis is more straight forward and is more easily quantified than the benefit side.

C. Assumptions Regarding the Prototype Subproject

1. The new market is larger than the market it is replacing. The effective new area is equal to 20 percent of the new facility.

2. The ratio of private sector employees (vendors and other casual labor) to area is one for every 4 square meters. (These are private sector employees and are not to be confused with LGU employees.) These excludes the stallholders themselves. New stallholder employees, therefore, represent 20 percent of all employees.

3. The ratio of stallholders to area is one stallholder for every 12 square meters. New stallholders represent 20 percent of all stallholders.

4. As in the financial analysis, the value of market land is ₱200/m^2. However, the imputed value of land, based on its next best alternative use, is ₱150/m^2 of building area.

5. The operating costs of the new facility incurred by the market administration are the same as for the old facility. It is assumed that the technical assistance and training provided by the project together with the improved facility layout results in a 20 percent increase in the productivity of LGU employees.

6. The cost of transferring from the old to the new facility is zero.

7. The benefits flow with full value beginning in the year following the construction outlay.

8. The construction is completed in one year.

9. The impact of inflation on costs is exactly matched by its impact on benefits. Hence, the impact of inflation is ignored.

D. Estimation of Project Costs

Schedule 1 shows project disbursements by year. The U. S. portion is the same as that used in the Financial Plan. The counterpart portion is $600,000. This is assumed to be the cost of the GOP-provided management and administration. The timing of the disbursement of these funds is assumed to have the same proportional time frame as the U. S. project funds.

As shown in Schedule 2, construction costs are adjusted for (1) a 3 percent contractor's tax and (2) the shadow price of unskilled labor. It is assumed that the unskilled labor component accounts for 10 percent of

the total construction cost.[2/] The shadow price for this unskilled labor reflects the return to this labor in its next best employment alternative and is based on estimates by the National Economic and Development Authority. These estimates suggest that the shadow wage is 75 percent of the official wage.[3/] These adjustments lower the estimated economic cost of construction from the ₱1350 used in the financial analysis to ₱1276/m^2. This cost includes the full cost except for technical assistance which is expected to provide, in part, for architectural and supervision support.

The foreign exchange cost of the project is currently estimated at US$0.8 million. This is exclusively for technical assistance and training. The foreign exchange has alternative uses and adjusted for its value in these alternative uses. The current foreign exchange shadow price is estimated at 20 percent over the official exchange rate.

The land used for the market is a project cost and has alternative uses. Elsewhere in the PP, the land used for the markets is considered as a counterpart unsupported contribution of approximately US$2.7 million. This figure is equivalent to about ₱200/m^2 of anticipated building area. Although this figure very likely approximates the average value of the land used for markets (i.e., the value of the land in its highest and best use), for purposes of analysis it is necessary to shadow price the land at its opportunity cost. Thus, an inputed land value of ₱150/m^2 of building area is used in this analysis. Based on an informal survey of land values surrounding markets in cities of various sizes, the ₱150/m^2 cost reflects the value of land in its best alternative use, such as private commercial usage.

Although the operation and maintenance (OM) of a market involves substantial cost, the additional staffing requirements are unknown at this time. However, since the new market subproject concept incorporates improved design, materials, and management practices, it does not seem unreasonable to assume that the new market incurs exactly the same costs OM as the existing market. Therefore, the additional OM cost of the

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2/ The COWI Consult Studies of the Cagayan de Oro and Davao Markets concluded that the unskilled labor component is 10 percent of construction cost and 35 percent of the operations and maintenance cost. (See list of references.)

3/ For unskilled construction labor in areas outside of Manila, the official minimum wage is higher than is necessary to attract the required amount of labor. Hence, the shadow price better reflects the "true" economic value of labor as a resource.

new market is set at zero. Some of the alternative subprojects could involve additional operating and maintenance costs. However, in these cases, the benefits would also be significantly higher, offsetting OM increases.

The net effect of externalities associated with the new market is expected to be positive rather than negative. Such factors as congestion, limited access, pollution, poor health and sanitation factors, and shopping time required are expected to be less with the new market. The quality of life in the area served by the market is expected to improve. Negative externality costs can be assumed to be zero.

The combined effect of these factors on project costs is shown in Schedule 2. These are the costs used in the IRR analysis in Schedule 5. The project cost most subject to underestimation is that related to construction. A sensitivity analysis was conducted with construction costs set 25 percent higher. This is the same as reducing the area constructed, and hence benefits, by 20 percent. The effects on the IRR analysis are shown in Schedule 6.

The number of meters to be constructed and available for use as markets is shown in Schedule 3 by Fiscal Year. This area is obtained by applying ₱1350/m^2 against the expected credit expenditures. This is applying ₱1276 per square meter against the adjusted construction subproject amount.

E. Estimation of Project Benefits

Unlike the analysis of costs, the quantification of project benefits is much more difficult. Although anticipated benefits from the project are considerable, the intangible nature of many of these benefits coupled with quantification difficulties means that many of the benefits cannot and are not specifically included in this analysis. Consequently, the quantification of benefits in this analysis must be regarded as partial and will understate actual expected benefits.

For the purpose of this analysis, it is helpful to examine expected benefits from two perspectives; firstly, considering the program's positive contribution to general national goals; and secondly, from the perspective of beneficiary groups. Considerable overlap or "double counting" could potentially result from this dual approach. Therefore, the quantitification of benefits will only be attempted from the beneficiary group perspective.

F. Project's Contribution to General National Goals

The role improved market facilities will play in increasing marketing efficiency and aiding free enterprise has already been discussed at some length in the background portion of this paper. These themes may be expanded somewhat in the broad context of general national goals, such as improving economic entrepreneurship, income, price stability, production, employment, and health and nutrition.

1. Strengthening Private Enterprise

Markets are a pivotal element in the distribution of food and other consumer goods in the Philippines. The markets not only enhance the performance of the marketing system, but provide a valuable opportunity for countless thousands of small entrepreneurs. Markets are almost completely composed of small private traders, trading commodities of small producers, and acting in a very individualistic manner subject to the constraints of a competitive marketing place. The Markets in the Philippines currently provide this opportunity better and at less cost, both in terms of capital requirements and operations, than the alternatives associated with dispersed privately-owned stalls.

2. Effects on Prices, Real Income and Price Stability and the Resulting Consequences for Production and Employment.

The primary indicators of inefficient markets are wide marketing margins and widely fluctuating prices. Significant disruption and uncertainty in production and consumption activities result. To the extent that marketing inefficiencies are reduced from present levels by the new and improved facilities, better price signals will result with consequent reduction in both marketing margins and price fluctuations.

Both result from imperfection in the price setting function of the market. Unjustifiably wide marketing margins may stem from inferior bargaining positions when dealing with few buyers or sellers of the product in the market. Inferior price information caused by lack of access or congestion in the market may also inflate margins. Consequently, to the extent that the new and improved facilities will increase access, improved information flows generate greater competition from more buyers and sellers, resulting in reduced marketing margins. Fluctuating prices, particularly for agricultural products characterized by inelastic demand curves, are common in all markets. Widely fluctuating prices, however, may have the same root cause as wide marketing margins. Imperfect price signals generated in a poorly competitive market with poor access and/or heavy congestion and poor information flows will distort the activities of those individuals

attempting to allocate goods over time, form and space. Consequently, unnecessary market gluts and shortages will occur with their accompanying wide price fluctuation. Improved market facilities will reduce these distortions.

The reduced marketing margins and price fluctuations brought about by new and improved facilities will have a positive real income effect for all market participants. Consumers' real income may increase due to lower average consumer prices and reduced transportation and commuting costs. Farmers' and small cottage-industry entrepreneurs' real incomes may increase due to expanded demand for their products, higher average prices, increased opportunities and lower costs associated with direct marketing of their products in the market, and more meaningful price signals for inputs as well as outputs. Improved and more stable price signals will stimulate production and long range planning in the "right" areas and thereby encourage greater specialization and integration into the modern economy. Even vendors and middlemen are expected to benefit substantially in real income terms as volume increases due to new and improved facilities.

Rising real incomes of market participants will play an important role in expanding production and employment in the surrounding area. Direct employment gains will be made in the area after construction of the new facility when sales and other jobs connected with the expanded facility become available. However, indirect employment gains and production opportunities occurring as a result of rising incomes in the area are perhaps more important. Unfortunately, quantifiable estimates of the employment multiplier and production effects are not possible at the point in time.

3. Improved Sanitation, Health, and Nutrition

Given the present condition of the majority of markets in the Philippines, new and improved facilities and improved market management cannot but enhance the health and nutrition of market participants. The value of a wide selection of inexpensive, fresh and healthful supplies of food available in clean surroundings free of filth and vectors of infectious disease is great, but again, unquantifiable. Low income groups, in particular, will benefit since they patronize markets in proportionability higher numbers spending upwards of 50 percent of their disposable income on food. It is the market vendors, however, who will benefit most since they currently spend virtually all of their wakeful hours in the market. These improvements will result in less time lost-on-the-job and in reduced medical costs.

G. Beneficiary Groups

The approach adopted in this portion of the analysis is to estimate the value of the increased benefits resulting from the project. This is done by considering the benefits which accrue to individual groups of market participants. Conceptually, a measure of the net increase in economic surplus resulting with the project is desired. This economic surplus will represent the summation of all participants' net valuation of the expected additional economic and social benefits attributable to the project. Once the net increase in economic surplus is determined, the flow of these benefits will be compared with the flow of additional costs and a determination of economic viability made.

For practical reasons, such a precise analysis is impossible to conduct since it requires the estimation and summation of all participants' individual demand curves for the additional expected market services. Nevertheless, using information presently available, it is possible to estimate or make inferences about the net expected benefits for the important beneficiary groups. By summing the net benefit estimates for these groups, an order of magnitude for the additional economic surplus resulting from the project is determined.

Estimates of net benefits to the vendor and consumer beneficiary groups are presented below. Additionally, an estimate of the value of direct market services not accounted for by the other two groups is provided. This estimate uses the adjusted wages earned by additional employees of the stallholder (not LGU employees) as a proxy measurement for these additional market benefits and services. Benefits to indirect beneficiary groups remain unquantified and only theoretical benefit measurements are provided. It should be emphasized, however, that the net benefit to these groups are real and if their inclusion was practical, would significantly increase the net economic surplus. The associated IRR estimate would, in turn, also be increased.

H. Background to Estimation Procedures

The estimates of project benefits for the vendor and consumer groups are made by estimating what each group would be "willing to pay" for the increased economic and social services provided by the improved market facility. A willingness-to-pay determination is standard economic procedure whenever a value assessment for any unpriced good or service is required (e.g., as in the case of estimating the value of pollution abatement programs, the value of parks and recreation facilities, etc). Since no price exists, consumers of the good or service are not forced to reveal their preferences concerning the relative value of the good or service. Consequently, the demand curve and associated economic surplus

is unidentified. The willingness-to-pay strategy involves getting consumers to reveal their preferences (and, therefore, their valuation) of the good through survey techniques and by making inferences from observed behavior.

In the case of the markets project, both vendors and consumers receive substantial benefits from new and improved facilities, and both would be willing to pay for these benefits. A willingness to pay estimate for vendors, for example, should reflect the value of the expected increased net revenue stream (increased returns to their factor of production) as well as the net values they attribute to working in a cleaner, less congested, safer and better designed facility. Consumer's willingness to pay should reflect their perceptions of the value of increased cleanliness, safety, assessbility, etc.

As a measure of the value of additional direct marketing services not accounted for by the other two groups, the value of wages received by the additional employees of the stallholder (not LGU employees) in the new facility is used as a proxy measurement for additional willingness to pay. New stallholder employee wages reflect the value of their marginal productivity to new stallholders (their employees) the wage rate can be used to infer the value of the additional output created (additional marketing services) by the new and improved facility.

"Double counting" is not considered a problem because this analysis adds separate benefit estimates from the different beneficiary groups. Using the wage rate to infer additional direct marketing services is not "double counting" since stallholders regard wages as an expense and would have netted out these costs for their new anticipated net income stream and associated willingness to pay. Similarly, consumer and vendor estimates of willingness to pay do not overlap. Willingness to pay does not imply any actual or anticipated transfer of money from one party to another: it is simply an indication of value expressed for convenience in monetary terms.

I. Estimation of Beneficiary Benefits

The detail of the computational procedures for each of the selected beneficiary groups and additional marketing services is shown in Schedule 4. The summation of the benefits is shown in Schedule 5 for a 25 year period. Schedule 6 reduces the benefits by 20 percent for this 25 year period to show the sensitivity of the IRR to an overestimation of benefits or a 20 percent underestimation of construction costs. The IRR is 28; with sensitivity analysis, the IRR is 23.

1. Retailers and Other Vendors

The financial analysis indicates that new and improved market facilities will be constructed and made self supporting for about the same rental level (up to ₱1.50/m^2 meter per day based on actual stall space) as currently obtained from present, vastly inferior facilities. Present fee levels represent minimum estimates of what market vendors are willing to pay for the services provided by present facilities. These fee levels seriously understate the benefits derived by stallholder. This is deduced from the widely known behavior of this group to trade or sub-lease the rights to their market stalls. Even though this practice is illegal or administratively overlooked, other vendors are willing to pay very substantial sums of money for the rights to a market stall. The fact that this behavior occurs indicates that substantial profits are made by some vendors and that original stallholders were, in fact, subsidized by low rental fees. Original stallholders would have been willing to pay more for the rights to the market stalls indicates a substantial income stream. They are willing to pay this notwithstanding the old, delapidated facilities.

At least one author[4/] argues that stallholders could pay substantially higher fees "with little or no appreciable effect on (consumer) prices". This argument is based on the fact that present average fee level represents a very small proportion of each vendor's revenue. Consequently, the additional fixed cost brought about by a (say) 10% increase in fees would be spread over a relatively large number of unit sales with very little upward pressure on consumer price. For the vendor, volume is a much more critical determinant of profit than rental fee levels. Thus, it is apparent that present fee levels substantially understate vendor's willingness-to-pay for the services provided by present facilities; at least in crowded markets where volume is not a problem. It follows that given new and improved facilities, the willingness-to-pay indicated by the old fee schedules are even more understated; especially since the vendors themselves would spend most of their day in the new facilities and presumably benefit more from the cleaner, less congested and volume enhancing surroundings. Consequently, it is reasonable to assume that fee levels will rise an average of ₱50/m^2 meter per day for total space allocated to stallholders (₱1/m^2 meter per day for actual stall area or a rise from ₱1.50 to ₱2.50/m^2 meter per day) to reflect this group of beneficiaries willingness-to-pay for new facilities.

4/ Diokno.

For the new stallholders (20 percent of the market), it is assumed that the willingness-to-pay is ₱1.25/m^2 meter per day for total allocated area (₱2.50/m^2 meter per day for actual stall area). This does not mean that this amount is or should actually be collected (monetized). Rather, this is the average of what could be extracted from the stallholders before they were forced to give up their stalls. The total of the increase in the willingness-to-pay of existing stallholders plus the new stall holders can be obtained by applying the above values (also shown in Schedule 4) to the market area available in Schedule 3.

2. Consumers

Consumers who patronize new market facilities will benefit from increased convenience, security, cleanliness, quality, selection, accessibility, etc. Information on what consumers would be willing-to-pay for these perceived benefits is obviously limited given the nature of this type of survey. However, one recent study[5/] does report the results of a rather extensive consumer survey in Cagayan de Oro. This study reports that 58 percent[6/] of those interviewed would accept some price increase resulting from market improvements.[7/] Of this percentage, 67 percent would accept up to a 2 percent increase in prices, 25 percent would accept a 2-5 percent increase, 7 percent a 5-10 percent increase, and those remaining a 10-20 percent increase. A significant willingness of high income consumers to pay more was reported.

The difficulties of generalizing from this limited sample are obvious. However, since consumers will obviously benefit from new markets and presumably would be willing-to-pay for these benefits, the minimum suggested willingness-to-pay estimate of a 2 percent increase in prices is used in this analysis. Due to hidden preferences, however, this figure is very probably conservative.

5/ Markets in Cagayan de Oro. (See the list of references.)
6/ The Davao market study suggested only 30% would accept a price increase of 2-3%. (See the list of references.)
7/ The problems of getting consumers to reveal their true preferences by survey techniques are legendary. It is likely in this case that consumers would have strong incentives to understate their true willingness-to-pay.

3. Additional Direct Market Services

The value of additional direct market services not included in the previous categories can also be quantified to some extent. As explained above, the wage rate for new employees of the stallholder or vendor (not LGU employees) can be used as a proxy measurement for the value of this additional output. It is assumed that the additional 20 percent area will require additional stallholder employees at the same level as the existing stalls. Based on a limited sample of specific proposals for new markets, it is estimated[8/] that an average stall requires three hired laborers, who work for an average of ₱400 (meals and lodging inclusive) per month. The shadow price of this labor is assumed to be ₱300 per month. It is assumed that these employees are new entrants into the work force. If they were working previously non-working persons take their prior places.

4. Other Beneficiaries

Although presently unquantified in this analysis, the theoretical benefits to other groups of beneficiaries, (appropriately adjusted for shadow prices) may be listed as follows:

Beneficiary Group	Theoretical Measure of Willingness-to-Pay
a) Indirect employment	- Value of the additional goods and services generated (the multiplier effect).
b) Landowners surrounding	- Net increase in the value of services (land rent) with verses without the market improvement.
c) Farmers and small industry entrepreneurs in the Service Area.	- Value of increased production and cost savings attributable to market improvements for less costly access to the market.
d) Transportation providers	- Value of savings in equipment operation and maintenance due to improved traffic flows and reduced loading/unloading time.

8/ For example, Market proposal: Angeles City

Beneficiary Group	Theoretical Measure of Willingness-to-Pay
e) Local Governmental Units	- A distributional issue. However, market fee collection may be a cost effective means of collecting taxes. The appropriate measure in this case is the savings in collection costs with verses without market improvements.
f) LGU Market employees	- Value of the increased satisfaction, reduced effort, and improved job skills resulting from the project. This includes the value of new skills acquired as a result of the training.
g) Markets and LGU's outside of the Selected Service Areas	- The value of the new ideas, improved designs, proven new management techniques, etc. that become available to markets other than those supported directly.
h) Public Health Facilities and Personnel	- The cost savings due to reduced medical treatment of market participants.

J. Results

The analysis is based on relatively straightforward and early quantifiable assumptions, and, therefore, underestimates the potential benefits of the project. Nevertheless, the analysis indicates an IRR of 28 percent for the project (Schedule 5). This compares favorably with most commercial loans at 23 percent. Even if the area that could be built with the project were reduced by 25 percent, equivalent to a 20 percent reduction in benefits, the analysis still indicates an IRR of 23 percent (Schedule 6).

The conclusion that is drawn from this analysis is that the market project is an excellent way of (1) stimulating and strengthening the Philippine private sector and competitive marketing system; and (2) providing significant benefits (increased income and quality of life) to the poorest sectors of the Philippine society. The Market project has very satisfactory economic returns in addition to financial viability.

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Schedule 1

Expected Disbursement of all Project Funds by Fiscal Year

Expenditures	Fiscal Year 82	83	84	85	86	87	88	Total
				(US$1,000)				
U.S. Funds (Direct Dollar Disbursements and Disbursements in Support of GOP Financed Activities)								
Technical Assistance	-	500	500	300	300	300	100	2,000
Credit	-	450	2,300	2,400	3,500	4,550	4,800	18,000
Training	-	50	200	300	200	150	100	1,000
Sub-Total	-	1,000	3,000	3,000	4,000	5,000	5,000	21,000
Unsupported Counterpart Funds (excluding land)	-	130	145	105	95	90	35	600
Total	-	1,130	3,145	3,105	4,095	5,090	5,035	21,600

Schedule 2

Computation of Economic Costs by Fiscal Year

	Total Before Adjustment[1]	Expected Disbursement of Project funds					
		Tax[2]	Adjustment for Unskilled Labor[3]	Adjustment for Foreign Exchange[4]	Sub Total	Imputed Land Cost[5]	Total
			(₱ Million)				
1983	9,379	- 112	- 93	+ 415	9,589	415	10,004
1984	26,104	- 573	- 477	+ 415	25,469	2,121	27,590
1985	25,772	- 598	- 498	+ 249	24,925	2,213	27,138
1986	33,989	- 872	- 726	+ 249	32,640	3,229	35,869
1987	42,247	-1,133	- 944	+ 249	40,419	4,196	44,615
1988	41,791	-1.195	- 996	+ 83	39,683	4,427	44,110
Total	179,282	-4,483	-3,734	+1,660	172,725	16,601	189,326

1 A conversion rate of US$1.00 = ₱8.30 has been applied against the total amount shown in Table 1

2 A contractors' tax of 3 percent has been applied against the credit amount shown in Table 1

3 An adjustment for the shadow price of labor of 25 percent above the official minimum wage rate has been applied against 10 percent of the credit amount shown in Table 1

4 An adjustment for the shadow price of foreign exchange of 20 percent above the official exchange rate has been applied against $1 million of the U.S. technical assistance in proportion of the total U.S. technical assistance.

5 Land value adjusted to its shadow price of ₱150 per square meter of stall area.

Schedule 3
Expected Area of Public Markets Under Construction and Available for Use by Year

Year	Under Construction[1/]	New Area Available[2/]	Total Area Available
	(1,000 Square Meters of Market Area)		
1983	2.8	-	-
1984	14.1	2.8	2.8
1985	14.8	14.1	16.9
1986	21.5	14.8	31.7
1987	28.0	21.5	53.2
1988	29.5	28.0	81.2
1989 - 2007	-	29.5	110.7

1/ Obtained by applying the estimated construction cost of ₱1,350 against the credit amount (converted to ₱) in Table 1.

2/ The constructed market facility is assumed to become available exactly one year later, on average.

Schedule 4

Computation of the Willingness to Pay for Selected Beneficiaries

The following computations are all base on one square meter of market area.

1. Retailers and other Vendors

Assumptions:

- Average gross sales/Stall = ₱5,000/month
- Vendors relocating from old facility = 80%
- New vendors at the new facility = 20%
- All sales activities are within 6 m^2 stalls
- A 6 m^2 service area is allocated to each stallholder 1/

	Proportion of Total Vendors		Willingness to Pay (WTP) Additional Rental Fees (₱/m^2/day)		Average Additional WTP (₱/m^2/day)	Days Per Year	Total WTP (₱/m^2/Year)
old vendors	.80	X	.50	=	.4	X 360	= 144
new vendors	.20	X	1.25	=	.25	X 360	= 90
					.65		234

2. Consumers

Assumptions:

- Average gross sales/stall = ₱5,000/month
- Willingness to pay is an average of 2% of all purchases.

1/ Due to the extreme variability of the number of ambulant vendors within markets, it has been decided to allocate the entire 12 m^2 to one profit and sales center - the stallholder. To the degree that ambulant vendors use the service area, the willingness to pay for the new market is understated.

Sales (₱/stall/mo.)	WPT	Monthly WTP/stall	Allocated Space (m^2) to stallholder	Monthly WTP (₱/m^2/mo.)	Months Per Year	Annual WTP (₱/m^2/year)
5,000	X .02 =	100 ÷	12 =	8.33	X 12	X 100

3. Other Direct Benefits

Assumptions:

- Employee wages are a reasonable estimate of other direct benefits.
- Average wage (including room and board, adjusted for shadow prices) = ₱300/month
- Ratio of old, relocated employees to new employees = 4:1
- Average number of employees/stall = 3

Ratio of employees to allocated staff area (employees/m^2)	Proportion of New Employees	New Employees Per m^2	Yearly Salary	Employees WTP (₱/m^2/year)
.25	X .2	= .05	X 3,600 =	800

4. Summary

The total willingness-to-pay is as follows:

Beneficiary	₱/Square Meter/Year
1. Retailers and other vendors	234
2. Consumers	100
3. Other direct benefits (employee wages)	180
	₱514

Schedule 5
Schedule of Costs and Benefits by Year

Year	Total Cost	Total Benefits	Excess Benefits Over Costs
		(₱1,000)	
1983	10,004	0	-10,004
1984	27,590	1,439	-26,151
1985	27,138	8,687	-18,451
1986	35,869	16,294	-19,575
1987	44,615	27,345	-17,270
1988	44,110	41,737	-2,373
1989	0	56,900	56,900
1990	0	56,900	56,900
1991	0	56,900	56,900
1992	0	56,900	56,900
1993	0	56,900	56,900
1994	0	56,900	56,900
1995	0	56,900	56,900
1996	0	56,900	56,900
1997	0	56,900	56,900
1998	0	56,900	56,900
1999	0	56,900	56,900
2000	0	56,900	56,900
2001	0	56,900	56,900
2002	0	56,900	56,900
2003	0	56,900	56,900
2004	0	56,900	56,900
2005	0	56,900	56,900
2006	0	56,900	56,900
2007	0	56,900	56,900

Schedule 6

Sensitivity Analysis: Benefits Deflated by 20% of Construction Costs Inflated by 25%

Year	Total Cost	Total Benefits	Excess Benefits Over Costs
1983	10,004	0	-10,004
1984	27,590	1,151	-26,439
1985	27,138	6,950	-20,188
1986	35,869	13,035	-22,835
1987	44,615	21,876	-22,739
1988	44,110	33,390	10,720
1989	0	45,520	45,520
1990	0	45,520	45,520
1991	0	45,520	45,520
1992	0	45,520	45,520
1993	0	45,520	45,520
1994	0	45,520	45,520
1995	0	45,520	45,520
1996	0	45,520	45,520
1996	0	45,520	45,520
1997	0	45,520	45,520
1998	0	45,520	45,520
1999	0	45,520	45,520
2000	0	45,520	45,520
2001	0	45,520	45,520
2002	0	45,520	45,520
2003	0	45,520	45,520
2004	0	45,520	45,520
2005	0	45,520	45,520
2006	0	45,520	45,520
2007	0	45,520	45,520

TECHNICAL ANNEX

Background on Markets and Marketing

A very basic characteristic of the development process is the division of labor and the specialization which accompanies it. Greater efficiencies are achieved as subsistence production gives way to the separation of production, distribution and consumption within a monetized economy. In highly developed societies, a person's production often seems unrelated to the goods and services he or she consumes. The exchange system operating through markets makes this high level of specialization possible. Markets enable buyers and sellers to interact. The supplies of producers and demands of consumers are brought together. The articulation of supply and demand, when prices are not controlled administratively, results in self-regulating, competitive pricing, which is the most efficient means of exchange.

Considerable attention has been focused on spatial exchange systems, which move raw materials from producing areas through processing facilities and on to final consumers. While considerable research has investigated factory location, even more scholarly attention has been focused on the assembly and distribution of finished goods to consumers. When distributing finished goods, the transportation and location costs of consumers generally outweigh the costs of moving the goods to retail outlets. Thus, retail outlets usually are located to maximize convenience for customers.

Retail distribution systems tend to balance consumer convenience with retail economies of scale. Retail outlets are found in areas which have enough consumers to insure that sales volume meets a minimum threshold needed to keep the outlet in business. Volume is dependent, among other factors, upon the number of consumers (the population) in the outlets' market area and their income levels. Some outlets, such as small grocery and general merchandise stores, can operate with only a few hundred people within their market area. Such outlets are the most ubiquitous and are generally within a short distance of almost all households. In contrast, other outlets, such as new car sales, major department stores, or specialized boutiques, need a very populous service area to generate enough sales to meet a minimum threshold level. Consequently, these outlets can only survive in larger urban areas. A whole hierarchy of retail centers exists from the numerous small villages, which offer everyday necessities, to the few large cities, which offer everything from everyday goods to very specialized items. These concepts have been used by scholars to elaborate central place theory which explains the spatial hierarchies and location of retail distribution.

Empirical evidence suggests that the hierarchy of market centers can be correlated with level of development. Highly developed societies tend to have the full range of market centers suggested by central place theory. On the other hand, many less developed areas are characterized by one predominant metropolitan area, relatively few intermediate sized centers, and numerous very small centers. This type of market center hierarchy can be linked with the dual nature of developing economic systems, i.e., a small modern sector and a large traditional or informal sector.

Planners have tried to overcome the limitations of incomplete urban hierarchies by pursuing regional development schemes. Starting in the 1960's development plans called for investment in "growth centers" which were either the largest urban centers in a country aside from the predominant city or brand new cities designed to become government or industrial centers (e.g., Brazilia and Ciudad Guyana). The popularity of this basically top down strategy was short-lived because it did little to bridge the gap between poor rural areas and modern predominant cities.

A second "growth center" strategy, popularized by Mosher[1/] and Johnson[2/] in the 1970's started at the bottom and advocated the development of market towns and provincial centers just above village centers in the hierarchy. This approach has received attention within AID under the rubric of "Urban Functions in Rural Development" espoused by S&T/Urban Development and their contractors Rondinelli and Ruddle.[3/] Very basically, the strategy strasses the crucial role that smaller urban centers play in bringing about rural development. These centers provide farmers with needed inputs such as fertilizer, seed, pesticides, tools and implements, credit, and information concerning improved agricultural practices and market conditions. These urban centers also are vital to the marketing of rural products; they supply transportation services, storage, packing, grading and most importantly, intermediate and final buyers of farm goods. In addition, market towns provide a variety of goods and services such as retailing, repair, transportation, communication, health, education, and administration.

As the above examples indicate, the operation of markets in small centers is an important factor in rural livelihood. Markets provide farmers and fishermen with cash incomes as well as a variety of desired goods and services upon which to spend these incomes. If markets are inefficient, supply is impeded, demand is reduced, and the marketing function absorbs

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1/ Arthur T. Mosher, "Creating a Progressive Rural Structure", ADC, New York, N.Y., 1967.

2/ E.A.J. Johnson, "The Organization of Space of Developing Countries" Harvard, University of the Philippines, Cambridge, Mass., 1970.

3/ Dennis A. Rondinelli and Kenneth Ruddle, Urbanization and Rural Development: A Spatial Policy for Equitable Growth, Praeger, New York, 1978.

a larger percentage, leaving farmers doubly hurt, i.e., with reduced cash incomes and higher prices for desired goods and services. Since inefficient markets also increased the cost of farm goods for all consumers, they hurt all segments of society. In contrast, efficient markets enhance farm incomes as well as reduce the price of farm goods. It is easy to see why efficient markets are important to regional development efforts.

The Urban Hierarchy in the Philippines

A rather typical urban hierarchy exists in the Philippines. According to preliminary results from the 1980 census, the predominant city, Metropolitan Manila, had a population of almost six million compared to just over 600,000 for the next largest city, Cebu. Income figures reveal market demand is even more concentrated in Metro Manila, where per capita Gross Domestic Product is 2.4 times larger than the next highest region, about four times the figure for all areas outside Metro Manila, and six times that of the poorest region, Eastern Visayas.

The GOP has been aware of regional imbalances for some time and has initiated programs to bring about greater equality. The Regional Development Framework of the 1978-1982 Five Year Development Plan[4/] seeks to bring about a more equitable pattern of development. The Plan, which was updated in 1980, intends "to make the development of depressed and lagging regions grow at rates faster than the relatively more developed regions in order to lessen regional inequalities..."(p.49). The plan emphasizes "the development of urban hierarchy which will give particular emphasis to the development of small- and medium-sized cities in the next quarter of the century". The GOP, through MHS, has identified a hierarcy of "growth centers", which includes 15 regional centers, 6 sub-regional centers, 58 major urban centers, and 108 minor urban centers. (See Table 1, Identified Growth Centers.) These urban centers will be the focus of urban development efforts under the 1983-87 Five Year Plan.

Markets in the Philippines

A number of characterstics distinguish market places from the network of private stores in the Philippines. First, it takes less capital to acquire a market stall than to purchase a store or rent

4/ Five-Year Philippine Development Plan, 1978-82, National Economic and Development Authority, May 1977.

from a private owner. Second, market stalls tend to be small and more specialized and so require less working capital to set-up and operate. Third, markets bring a greater number of sellers of the same product together in a small area. Thus, price competition is stronger as it is easier to do comparison shopping. Fourth, markets are easier to regulate. Fifth, due to the lower overhead costs of sellers and competitive pricing, prices in markets tend to be lower. Thus, lower income groups tend to travel greater distances and often tolerate very crowded and unpleasant conditions to take advantage of the lower prices offered in the markets. In contrast, higher income groups are more apt to frequent more disbursed private shops which normally have higher prices, but are more convenient and offer a more pleasant environment. In summary, efficient markets provide (1) improved opportunities for small scale commerce, (2) potentially higher prices for producers, and (3) lower prices for consumers.

As discussed in the problem section, markets in the Philippines typically are outdated, overcrowded and grossly inadequate. This situation is particularly true for those centers which have grown most rapidly in the last two decades. Empirical evidence suggests that these centers are the most apt to grow rapidly in the future and consequently are natural growth centers. In most cases, these rapidly growing centers are officially designated as growth centers and are scheduled to receive added investments which will further stimulate growth (see Annex E, Growth Center Strategy). As rapid urban growth proceeds, the outdated public markets will become more and more inadequate.

The inefficient, undersized and poorly managed markets in these centers limit the operation of an efficient marketing system. In addition to reducing returns to farmers and increasing consumer costs, such markets generate added health and congestion costs which must be born by the full urban population. While the unamortized capital cost of these old structures is small or zero, repair, maintenance, operating, health, congestion and opportunity costs are significant and, in some cases, may offset the benefits provided by the market.

PROJECT MANAGEMENT SYSTEM
INPUT DOCUMENTS

PROJECT APPROVAL

* Feasibility Study/Engineering Design
* Project Identification Document
* Project Paper

PROJECT AUTHORIZATION (BY MHS MPO, IAFC, the Secretariat and USAID)

* Project authorization

PROJECT ACCEPTANCE

* Memo of Agreement Between the Secretariat, MHS MPO and LGU

PROPOSAL/BID SELECTION

* Request for Proposals/Invitation to Bid
* Proponents' Proposals/Bids (or Evaluation Checklist)
* Copy of the Signed Contract

FUNDS RELEASES

* Bank Reports (Disbursements)
* Advice of Cash Disbursement Ceiling
* Payments to Contractors (e.g. Vouchers)

PROJECT EXECUTION/COMPLETION

* Progress Reports From the Implementing Agency
* Change Orders/Contract Admendments
* Exception Reports (Issues/Problems)
* Interim Evaluation Reports
* Completion Report/Final Payment

ACCPETANCE OF THE COMPLETED PROJECT

* Certification by the LGU/MHS MPO/Secretariat

POST IMPLEMENTATION

* Audit Reports (by COA, MHS MPO and USAID)
* Final Evaluation Reports

AID 1000-20-11-79

ANNEX 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: [illegible] (492-0354)

Life of Project:
From FY 82 to FY 88
Total U. S. Funding $21 Million
Date Prepared: June, 1981

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1) Higher quality of life for small industrial and agricultural food producers and consumers in areas outside Metro Manila.	**Measures of Goal Achievement: (A-2)** 1. Increased real per capita income. 2. Improved health status.	**(A-2)** Surveys (not in project) and national statistics including CDA, NEF, NNS, NEDA, and NLG.	**Assumptions for achieving goal targets: (A-4)** Benefits of more efficient public marketing systems accrue to small industrial and agricultural producers, market stallholders and consumers.
Sub-goals: 1. More efficient marketing systems. 2. Improved income of vendors in markets and improved health of households using markets.	1. Reduce marketing costs (difference between farm gate/industrial price and price to consumer(s)). 2. Reduced incidence of food related disease and market related accidents.	- Surveys (not in project). - Field observation by experts (not in project).	1. GDP brings about improvements in the marketing system's infrastructure and operations. 2. LGUs make markets more efficient, healthier, and financially viable.
Project Purpose: (B-1) 1. More efficient and healthier markets in up to 72 local government jurisdictions operating at break-even point. 2. Enhanced capacity of the GDP to bring about improvements to marketing systems. 3. Provide ESF funds resulting from the Philippine Military Bases Agreement of 1947.	**Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)** 1. See Nos. 1 & 2 of sub-goal. 2. Market staffs skills, motivation and performance improved. 3. Revenue flows from markets equals or exceeds operation costs of market.	**(B-2)** - Surveys (in project). - Field observation by experts (in project). - Interviews with sellers, consumers, local leaders, and local officials. - Interviews with GDP personnel and others knowledgeable of the GDP. - Audit of local accounts. Estimated (non-accounted) costs and revenues.	**Assumptions for achieving purpose: (B-4)** 1. New marketing structures are built at proper locations, are properly designed and constructed. 2. Treasurer's Offices in project sites are cooperative, qualified and motivated to accomplish project outputs. 3. Sellers and buyers use new markets. Revenue/cost breakeven is considered when establishing stall rental rates.
Project Outputs: (C-1) 1. Up to 72 new or rehabilitated markets planned, analyzed and designed. 2. Up to 72 new or rehabilitated market structures. 3. Up to 72 trained and qualified market managers; [illegible] staff trained in all aspects of improving marketing systems.	**Magnitude of outputs: (C-2)** 1 & 3. 1,500 person-weeks of technical assistance and training provided in appropriate areas: Market analysis, location design, financing, administration, proposal prep., etc. 2. 9,167 stalls or 110,000 s. meters of new or renovated market area.	**(C-2)** - Accepted feasibility reports and designs - Construction monitoring reports and inspections. - Training records - LGU acceptance of loans	**Assumptions for achieving outputs: (C-4)** 1. Land title can be acquired for newly constructed markets. 2. Treasurers and market managers utilize training and accept TA. 3. NEA, NFJ staff utilize training and accept TA.
Project Inputs: (D-1) A. Dollar support for: 1. Technical assistance 2. Funds (for construction services) 3. Training B. Unsupported GDP funds: 1. Project Management 2. Land	**Implementation Target (Type and Quantity) (D-2)** ($000s) A. 1. 2,000 2. 18,000 3. 1,000 21,000 B. 1. 600 2. 2,700 3,300	**(D-2)** - Agreements and contracts signed - Feasibility reports and sub-project designs - Project progress reports - disbursement schedules	**Assumptions for providing inputs: (D-4)** - Appropriately qualified TA and training is available.

BEST AVAILABLE DOCUMENT