PD-ABD-552

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PHILIPPINE CAPITAL INFRASTRUCTURE SUPPORT PROJECT
(492-0458)

PROJECT PAPER

USAID/PHILIPPINES
September 1990

PD-ABD-552

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PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) Amendment Number: ____

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: PHILIPPINES

3. PROJECT NUMBER: 492-0458

4. BUREAU/OFFICE: Asia and Near East 04

5. PROJECT TITLE (maximum 40 characters): PHILIPPINE CAPITAL INFRASTRUCTURE SUPPORT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): 7 Years from date of initial obligation (MM DD YY)

7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4)
A. Initial FY 90 B. Quarter 4 C. Final FY 93

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

A. FUNDING SOURCE	FIRST FY 90 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	30,000		30,000	85,000		85,000
(Grant)	(30,000)	( )	(30,000)	(85,000)	( )	(85,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1. Eximbank Grant	13,750		13,750	*		*
Other U.S. 2. Eximbank Loan Guarantee	79,393		79,393	**		**
Host Country						
Other Donor(s)						
TOTALS	123,143		123,143	***		***

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) SAI		800				30,000		85,000	
(2)									
(3)									
(4)									
TOTALS						30,000		85,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To mobilize public- and private-sector resources to meet priority infrastructure needs, the unfulfillment of which constrains broad-based, private-sector led growth.

Insert - continue on separate page as required

14. SCHEDULED EVALUATIONS
Interim MM 11 YY 91 MM 11 YY 93 Final MM 09 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[x] 000 [ ] 941 [ ] Local [ ] Other (Specify) ____

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

NOTE: The provisions of the payment verification policy regarding method of implementation and financing, financial capability of recipients, and adequacy of audit coverage have been adequately addressed in this document.

J.C. Stanford, Controller

17. APPROVED BY
Signature: Clifford M. Lewis
Title: Deputy Assistant Administrator Asia/Near East Bureau
Date Signed: MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

BEST AVAILABLE COPY

INSERTS FROM PAGE 1

1. * Eximbank will, on a best efforts basis, provide additional grant funds subject to their availability over the life of the project.

2. ** If additional grant funds are pledged by Eximbank, then more loan guarantees will also be provided to expand the project within the 35-65 grant loan formula contained in the OECD guidelines.

3. *** Totals will depend on future year commitments by Eximbank.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON DC 20523

PROJECT AUTHORIZATION

Name of Country: Philippines

Name of Project: Philippines Capital Infrastructure Support Project

Number of Project: 492-0458

Number of Grant: __________

1. Pursuant to the section entitled "Multilateral Assistance Initiative for the Philippines," in Title II of Public Law 101-167, I hereby authorize the Philippines Capital Infrastructure Support Project (the "Project") for the Philippines involving planned obligations of an amount not to exceed $85 million in grant funds over a four year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process and to the availability of financing from the Export Import Bank of the United States (Eximbank) with grant funds and loan guarantees, as appropriate, to help finance costs of the Project. The planned life of the Project is seven years from the date of initial obligation.

2. The Project consists of assistance to mobilize public and private resources to meet priority infrastructure needs that are constraining economic development through private-sector-led growth. The project also will provide funds for technical assistance. Subprojects will be concentrated in key economic development sectors: power, telecommunications, transportation, construction, and environmental protection and management activities related to these sectors. Subprojects will be screened to meet appropriate developmental soundness criteria. Once subprojects are approved for financing by both Governments, Eximbank will administer U.S. Government infrastructure assistance.

3. 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 as A.I.D. may deem appropriate.

4. Commodities financed by A.I.D. under the Project shall have their source and origin in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States as their place of nationality, 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 financed only on flag vessels of the United States.

5. Prior to any disbursement of funds or the issuance of any documentation related thereto pursuant to which disbursement may be made, other than for technical assistance, a satisfactory Concessional Financing Facility Agreement between Eximbank and the Government of the Philippines, must be duly executed.

6. The Project will be implemented in collaboration with Eximbank, as appropriate, pursuant to the terms and conditions of an agreement between Eximbank and A.I.D. Except as A.I.D. may stipulate in its project agreement with the Government of the Philippines, its interagency agreement with Eximbank, or otherwise in writing, Eximbank rules, regulations, directives, and procedures will apply to actions taken by Eximbank under such an arrangement. Subprojects approved by A.I.D., however, shall meet the environmental standards of A.I.D. Regulation 16.

By: C.M. Lewis

Title: DAA - ANE

Date: 9/26/90

Clearances:

Name	Office	Initial	Date
C. Lewis	DAA/ANE	CML	9/26/90
R. Nachtrieb	ANE/PD	RN	9/26/90
P. White	ANE/EA	(draft)	9/25/90
P. Davis	ANE/DP	(draft)	9/25/90
B. Hannon	PPC/PDPR/RP	(draft)	9/25/90
H. Morris	GC/ANE	(draft)	9/25/90
M. Butler	USAID/Manila	(draft)	9/25/90

Draft: L. Chiles, RLA; H, Morris, GC/ANE

PHILIPPINES CAPITAL INFRASTRUCTURE SUPPORT PROJECT (PCIS)
(492-0458)

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ANNEXES

ACRONYMS AND ABBREVIATIONS

ADB	Asia Development Bank
AID	Agency for International Development
AmCham	American Chamber of Commerce
BOI	Board of Investment
BOT	Build/Operate/Transfer
CB	Central Bank
CCPAP	Coordinating Committee of the Philippines Assistance Program
CFR	Code of Federal Regulations
CIDA	Canadian International Development Agency
DBP	Development Bank of the Philippines
DOTC	Department of Transportation and Communications
DPWH	Department of Public Works and Highways
EA	Environmental Assessment
ECC	Energy Coordination Council
EMB	Energy Management Bureau
EX-IM	U.S. Export-Import Bank
FCS	Foreign Commercial Service
FX	Foreign Exchange
GDP	Gross Domestic Product
GE	General Electric
GNP	Gross National Product
ICB	International Competitive Bids
ICC	Investment Coordination Committee
ICI	Intermediate Credit Institution
IDCA	International Development Cooperation Agency
IEE	Initial Environmental Examination
IMF	International Monetary Fund
IQC	Indefinite Quantity Contract
LC	Letter of Credit
LGU	Local Governing Unit
MAI	Multilateral Assistance Initiative (same as PAP)
MCC	Maritime Coastal Communications
NAPACOR	National Power Corporation
NEA	National Electrification Administration
NTC	National Telecommunications Committee
NTDC	National Telecommunications Development Committee
NTDP	National Telecommunications Development Program
NTP	National Telecommunications Plan

OCP	Office of Capital Projects (part of USAID)
OEA	Office of Energy Affairs
OPEC	Organization of Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
PACD	Project Assistance Completion Date
PAP	Philippine Assistance Program
PCCI	Philippine Chamber of Commerce and Industry
PCIS	Philippine Capital Infrastructure Support
PCS	Public Calling Stations
PITF	Presidential Implementation Task Force
PLDT	Philippine Long Distance Telephone Co.
PNOC	Philippine National Oil Company
PNR	Philippine National Railway
PPA	Philippine Port Authority
PSC	Personal Services Contract
RTP	Rural Telecommunications Project
SAI	Special Assistance Initiative
TDF	Telecommunications Development Fund
TDP	Trade and Development Program
TELOF	Telecommunications Office
USG	U.S. Government
USIS	United States Information Service
WB	World Bank

I. SUMMARY AND RECOMMENDATIONS

1. Grantee: The Government of the Philippines (GOP) acting through the Department of Finance (DOF).

2. Implementing Entities:
National Economic Development Authority (NEDA)
Department of Finance (DOF)
Development Bank of the Philippines (DBP) or Land Bank

3. Grant Amount: $30 million (1st year))
EXIM Grant: $13.75 million (1st year)
EXIM Loan guarantee $79.393 million (1st year)

4. Purpose: The purpose of the Project is to mobilize public and private sector resources to meet priority infrastructure needs that are constraining broad based private sector led growth.

5. Project Description: AID plans to provide grants of $84 million during FY 90 through FY 92 and Exim Bank a combination of $84 million grant and $183 million of loan guarantees for a total of $351 million to assist in financing infrastructure needs in power, telecommunications, transport and construction, and, as a cross-cutting theme, may include environmental protection and management activities related to these sectors. AID will also provide $1 million for technical assistance. All equipment, commodities and services funded under the project will be of U.S. source and origin except for limited local technical assistance under specific waivers.

6. Financial Plan--Life of Project:

AID	$ 85 million	grant
Ex-Im Bank	84 million	grant
Ex-Im Bank	183 million	guarantees
Total	$352 million	

7. Grantee's Request:
The GOP's request for assistance is included as Annex A(pending).

8. Statutory Requirements: All statutory requirements have been met.

9. Analyses: The analyses presenting overall feasibility considerations are included in this project paper.

10. Recommendations: That an $85 million grant be authorized for the Government of the Philippines for Philippine Capital Infrastructure Support Project based on terms and conditions described in the Project Authorization.

II. BACKGROUND, STRATEGY AND DESCRIPTION

A. Background

GDP growth in the Philippines has fallen below four percent recently even though growth exceeding six percent is needed to absorb almost one million new job entrants each year. USAID's Philippines Assistance Strategy Statement (PASS) for FY91-FY95 points out that private sector investors consider inadequate infrastructure in the Philippines to be the key constraint to more rapid and sustainable private sector led growth. The PASS further notes that multi-billion dollar investments are needed in infrastructure during the next five years.

The World Bank, ADB and AID sector studies done recently reinforce the need for massive improvements in infrastructure. The 1989 World Bank energy sector program appraisal, for example, concludes that the power subsector is a major bottleneck to the Philippines' sustainable growth because generating capacity is inadequate to meet demand, the capital intensive nature of the subsector will cause it to absorb a large portion of the economy's resources, and the current high cost of energy adversely affects development of productive enterprises dependent on power. Transportation sector studies also note the urgent need to improve the land, air and marine transportation systems. Assessments of the telecommunications system tell a similar story and point out that with fewer than one telephone for every 100 inhabitants, there is a critical need for better telecommunications if the Philippines is to attract the private investment it needs.

By itself, the Philippines is simply unable to generate the necessary resources for these massive infrastructure needs. The investment needs between 1989-1993 in the power sector alone are estimated by the World Bank to be more than $3 billion with more than two-thirds of the total comprising foreign exchange costs. Most international banks are reluctant to increase foreign exchange or lending to the Philippines because of its high debt service load and its high political risk ratings.

Major support from the Philippines' multilateral and bilateral donors is clearly needed to mobilize the necessary resources for infrastructure needs. Under the framework of the Multilateral Assistance Initiation (MAI) launched in Tokyo in July, 1989, twenty five donors pledged more than $3.3 billion to support development needs primarily in the infrastructure area. The U.S. is also earmarking more than half of its FY 1990 MAI commitment of $160 million to help resolve infrastructure constraints. However, even if the U.S. and other donors continue to commit these levels of resources to the Philippines over the planned five year life of the MAI, and target much of these resources on meeting infrastructure needs, funding will still be inadequate unless private sector resources also can be tapped to supplement GOP and donor funding.

Indeed, the strategic context of the MAI is based on the premise that donor funds act as a catalyst for improving investors' confidence in the country, and that private sector inflows should overtake public sector inflows by the end of the MAI.

B. Strategy

The Philippine Capital Infrastructure Support (PCIS) project proposed takes a significant step toward mobilizing and efficiently targeting resources for developmentally-sound infrastructure needs. The PCIS strategy is to:

1. Leverage MAI resources to the maximum extent possible by raising additional resources for infrastructure from the U.S. Export-Import Bank (Exim) and other U.S. Government programs, the commercial banking sector, and other private sector sources. In conjunction with AID's contribution, Exim will provide an agreed level of grant funds from its tied aid credit fund. Exim will also provide long-term credit guarantees to encourage U.S. banks to make loans for U.S. exports needed for infrastructure projects in the Philippines. Credit guarantees will assist the Philippines to reestablish voluntary access to international banks which have been reluctant to increase their cross-country exposure. Feasibility studies conducted by the Trade and Development Program (TDP), a member agency of the International Development Cooperation Agency (IDCA), will be used to help target PCIS resources for attractive infrastructure projects. Discussions are also underway with the World Bank, ADB and OPIC to coordinate funding efforts for infrastructure improvements.

2. Focus resources on priority, developmentally-sound infrastructure projects in key sectors. The key infrastructure sectors of power, telecommunications, transportation and construction have been identified as the main constraints to private sector led growth in the Philippines and accordingly have been selected as the eligible sectors for PCIS financing. The cross-cutting environmental management area has also been included as an eligible sector because of its importance to sustainable, broad-based growth. There is of course a range of activities that could be done in each of these sectors, and the project is structured so that USAID will work with NEDA to fund the most developmentally sound ones.

3. Target PCIS on activities where U.S. technology is competitive to prevent subsidizing U.S. exports that have poor long term prospects, and to help assure the maximum technology transfer benefits for the Philippine economy. Besides screening projects for development impact and general soundness, it will be important to consider the competitiveness of U.S.

technology for the proposed projects. PCIS will help assure a level playing field for competitive U.S. technology that might otherwise not be delivered to the Philippines because of concessional financing packages offered by other countries. This will protect the Philippines from receiving less desirable technology simply because the financing package is more affordable and it thus will mutually benefit both the Philippines and the U.S.

4. Select only a limited number of developmentally sound activities within priority sectors to further concentrate impact and limit the management and monitoring burden. No more than six to ten specific financing packages are expected for the first year's funding with a preference for fewer, larger projects.

5. Use the most efficient means to manage the PCIS, while assuring that PCIS-financed activities are appropriately selected, monitored and evaluated. AID funds will be obligated with the GOP and will provide a portion of the concessionality to the total lending package as well as selected technical assistance to help identify and process proposals. Once identified and approved by NEDA and AID, funding (AID, Exim and guarantees for commercial credits) will be managed by Exim because of its comparatively greater experience and capability to manage trade credits. AID's development capabilities and presence in the Philippines will provide the comparative and competitive technology advantages for AID to efficiently screen activities for development merit and to provide technical assistance to look for developmentally sensible activities out of the many that might be proposed. By structuring management along these lines, the credits should be as accessible as possible, and AID's administrative burden will concentrate on finding sub projects with developmental merits.

6. Screen for development impact and policy considerations during project selection to assure that PCIS resources have a development impact and are not used contrary to MAI and AID policy objectives. Specific development criteria have been developed to screen each PCIS project activity. The criteria take into consideration policy implications; however, the major burden of support for policy reform will be on other MAI and DA/ESF programs such as the Support for Development Program (492-0430) and the MAI Private Enterprise Policy Support Program (492-0430). Moreover, the overall MAI policy framework paper covers a broad range of policy objectives that have been agreed between the GOP and donors.

C. Description of Program and Expected Impacts

1. Overview

The purpose of the PCIS project is to mobilize public and private sector resources to meet priority infrastructure needs that are constraining broad-based private sector led growth. The goal is broad based sustainable growth led by the private sector. To achieve the project purpose, in the first year PCIS will make available in FY90 $30 million in MAI grant funds from AID, $13.75 million in grant funds from Exim, and approximately $79.393 million in Exim long term trade credit guarantees to encourage U.S. commercial banks and exporters to extend credit to borrowers in the Philippines. Funds and guarantee coverage will be available for credit commitments over a five year period, however, all initial funding is expected to be committed to specific activities before the end of U.S. FY91. If sufficent demand is demonstrated, additional guarantees may be counted. Sufficient interest has already been expressed by the private sector, multilateral donors and the GOP to provide reasonable assurance that demand for PCIS will increase dramatically once it is better known to the U.S. and local business community.

To respond to expected future demand, the total AID MAI allocation over the FY 90-92 period is planned at $85 million. Authorization for this level of funding is requested at this time. During the five year life of project these funds are expected to leverage not less than $84 million from Exim in grants and $ 183 million in credit guarantees, plus provide a catalyst for private investment totalling not less than $200 million. Total funds mobilized, including the AID component, therefore, should be at least $352 million.

Almost all of the AID/Exim funds and commercial credits provided under Exim guarantees will be made available as "blended" credits for Philippine imports of U.S. source and origin goods and services for infrastructure projects. Eligible costs may include U.S. equipment imports, engineering and other services related to capital infrastructure projects, and can also include transportation and insurance costs in the contract price of the covered imports. In addition to these items, a portion of the AID grant contribution, estimated at $1 million, will be set aside for consultant services to help screen, monitor and evaluate the PCIS. In addition, limited funding will be budgeted for non-federal audit services for the technical assistance portion of the project.

PCIS grant funds for consultant services will be supplemented by the Philippine Assistance Program Support Project (PAPS) - 492-0452. PAPS was established in FY 1990 to develop the necessary feasibility and pre-investment studies for high impact projects. It is expected that the PCIS will serve as a financing window for selected projects developed under PAPS that meet the PCIS eligibility criteria. As mentioned above, TDP feasibility studies will also be a source of information for selecting and screening attractive infrastructure projects under the PCIS.

During the first year of the project, the major emphasis will be on financing large capital infrastructure projects. Unless there are exceptional circumstances, the PCIS contribution should comprise a minimum of $10-$30 million for each project. Once a number of large projects have been initiated, consideration will be given to programming a portion of future year funds for smaller scale projects. The management burden of screening and monitoring many small projects preclude trying to service smaller proposals during the relatively management intensive start up phase of the PCIS.

2. Criteria for PCIS Financing

(a) Sectors: The priority sectors eligible for financing are power, telecommunications, transportation and construction. Activities related to environmental protection and management in these sectors can also be included for financing where they can be shown to be important to overcoming constraints to sustainable private sector led growth.

Subprojects will, at least initially, be limited to the priority sectors with the understanding that these sectors may be broadly interpreted to permit the financing of a range of subprojects that meet all PCIS criteria. If, after implementation progresses, the Mission and GOP can justify some expansion of priority sectors, AID/W will consider exploring this with ExIm Bank and others concerned. Expansion of environmental protection and management activities could also be considered. As the project is currently authorized, and as approved by the Environmental Policy Council, such activities can be financed only as they relate to the primary sectors authorized: power, telecommunications, transportation and construction.

Sectors may be broadly interpreted to permit the financing of a range of projects that meet all PCIS criteria. Thus, subject to the screening process, the power sector may include generation, transmission and distribution activities; telecommunications may include any component(s) of the entire telecommunications network; transportation may include infrastructure projects targetted on resolving constraints to land, air and marine transport; and the construction sector may include equipment needs for private sector led growth. Environmental activities that contribute to growth may, for example, include solid and toxic waste disposal, air and water pollution control activities, and equipment for demand management and conservation programs.

(b) Criteria for Projects. Beside the normal feasibility and cost data used to support an application to Exim for a lending line of credit, the following criteria will be used to screen and select projects within approved sectors. To avoid duplication and delay, the project to the maximum extent possible will rely on the GOP appraisal process where possible.

(1) Development and Environmental Impact - Each proposed project will be examined to determine either directly or indirectly its approximate net benefit to the economy and if it falls within the overall MAI strategy. This will require estimates of either the economic rate of return or cost effectiveness, depending on the type of project. For moving the approval process, economic benefits may be estimated indirectly by comparison with related projects, and/or by utilizing data from existing studies. Other economic development and policy considerations, including likely effects on technology transfer, privatization, and decentralization will be considered before projects will be approved under PCIS. Economic returns must be estimated to be equal to or greater than the GOP social discount rate (currently 15 percent), and other developmental implications should at a minimum on balance be policy neutral before a project will be selected.

Regular AID environmental procedures will be applied to assure environmental soundness. This will require preparation of an Initial Environmental Examination (IEE) for each proposed project, and an Environmental Assessment where required.

(2) Price and Technology Competitiveness- Proposed projects will be screened to assure that equipment proposed for financing under PCIS is competitive in terms of technology and price relative to likely alternative sources of the equipment. PCIS will not finance activities when U.S. technology cannot compete under level playing field conditions.

Once a project has been selected, but prior to establishing financing arrangements, there may be a need to confirm that prices are reasonable. Where competition is used to select suppliers it is assumed that prices will be reasonable. Under negotiated procurement arrangements, however, the negotiated price package will need to be examined to assure that prices are reasonable for the trade. Exim Bank requires this as a routine part of its selection process and will assume responsibility for the reasonableness of price so AID need not duplicate the review.

(c) Screening Process: Projects will be proposed by the GOP and by the private sector (see implementation section for details). In virtually all cases where PCIS finances GOP projects, the feasibility studies accomplished by the concerned GOP agencies will cover the financial, economic and environmental viability of the projects. The GOP Investment Coordinating Committee (ICC) requires an Economic Rate of Return of 15% for GOP projects. Thus, AID can use GOP studies to meet most of its concerns for approving projects. Also for both public and private sector projects financed by the IBRD or ADB, appraisal reports done by these multilateral institutions are expected to cover most if not all of AID's development concerns.

Using available studies, USAID will conduct an initial review of projects, (including an Initial Environmental Examination) as soon as possible after projects for potential financing under PCIS have been identified. USAID may contract for consultant assistance to help conduct the initial review for USAID. This initial review will determine whether any additional analysis is needed. If the review is satisfactory, AID will advise Exim Bank which, subject to its own review, will issue a preliminary commitment to finance the projects.

USAID will access the necessary technical expertise to accomplish the above review process using rapid contracting methods. Where the expertise is locally available, purchase orders for the necessary reports may be used. Both 8 (a) and IQC mechanisms can be used for the reviews. Special reviews should take no longer than one-two weeks and in most cases will require an engineer and/or an economist.

3. Impacts

The PCIS Project is a multi-year activity intended to mobilize public and private sector resources to meet priority infrastructure needs that have developmental merit. This project is primarily a test vehicle for U.S. tied-aid in the Philippines. Depending on results, it may be extended and further institutionalized. Impacts on the target sector should be readily determined by measuring such things as increased power generating capacity, increased numbers of telecommunication lines attributable to the project. The project's development hypothesis is that these increases in infrastructure capacity will have a positive effect on economic growth which in turn will result in more jobs and improved incomes in the Philippines.

Beneficiaries of this project will be broad-based portion of the population due to the broad effects activities such as increased power generation, improved telecommunications and better transport produce. The analysis section of this paper discusses these benefits. Individual project analyses will provide more specific information on the benefit incidence.

Increased imports and market share for new technology from the U.S. in the priority sectors are also expected under PCIS. Baseline data for both the development and trade impacts will be established during the early months of PCIS so that effects may be later evaluated.

D. Description of Illustrative Projects

A number of potential project activities for financing under PCIS are described in detail in the Annexes to this project paper. These are in various stages of development but appear to conform to proposal selection criteria based on currently available information. All are within priority sectors, and all have major components of procurement in areas where the U.S. has competitive technology. Available feasibility or prefeasibility information indicates that these activities should meet the development impact criteria although they have not been formally screened.

Those projects that move through the development stage relatively quickly will be the first funded, until the PCIS is fully committed. Remaining projects, as well as new ones that are proposed during the life of PCIS, will be screened and held in reserve in the event additional funding becomes available, and/or committed projects are removed through competition for other reasons.

E. Technical Assistance Component

The US$1 million set aside under the PCIS for technical assistance will include the following:

1. Initiating Consultancy

It will be particularly important during the first three months of the PCIS that the PCIS be actively promoted, that necessary procedures and processing arrangements be established, and that projects are quickly processed and preliminary commitments are made.

To help assure these initial requirements are met in a timely way, a short term (approximately 3 months) consultant, either under a PSC or through an institutional mechanism, will be contracted by AID to devote full time to assist with these efforts.

2. Long Term Consultancies

Two GOP agencies (the National Power Corporation (NPC) and the Department of Transportation and Communication) are responsible for activities in the priority sectors of power and telecommunications. To assist these agencies to access and most effectively utilize PCIS, one expert consultant will be financed under PCIS, for a one year period, for each of these two agencies. Both consultants will be thoroughly familiar with state of the art U.S. technology and products in their respective fields (power and telecommunications) and will be able to assure PCIS is targetted on programs and U.S. goods and services of most benefit to the Philippines.

3. Evaluation

Consultancies for establishing development and trade base lines and for conducting a process evaluation and an import evaluation are planned. These are discussed in more detail under the evaluation arrangements section.

4. Audit Services

The USG will have the right to audit activities funded under PCIS and the facility. Audits of Eximbank activities will be conducted by the GAO. Primary responsibility for audits of AID-financed projects lies with the Regional Inspector General for Audit (RIG/A); however, as per STATE 300722 AID's audit responsibility will be extremely limited to covering only the financial and compliance aspects of the technical assistance component of the project.

F. Relation to GOP and Other Donor Plans

The MAI development strategy as contained in the 1989 strategic framework paper, "The Philippine Agenda for Sustained Growth and Development", included enhancing the environment for private sector activities, job creation, and restoring access to voluntary credit in international capital markets. The PCIS Project contributes to these important objectives. During the design process, the PCIS concept was vetted with the National Economic Development Authority (NEDA).

The development of the PCIS has been closely coordinated with the IBRD and ADB. A number of the proposed projects are possible cofinancing candidates. Both the IBRD and ADB are anxious to cooperate with AID as the PCIS funding becomes available, and regular coordinating sessions are planned.

III. IMPLEMENTATION PLAN AND ARRANGEMENT

This section of the paper discusses the key parties involved in project administration including their roles and responsibilities; the project implementation plan, the approval process, procurement arrangements and consultant requirements.

A. PROJECT PARTICIPANTS:

On the Philippine side, the key parties involved in administering the Project are the following:

The National Economic Development Authority (NEDA). NEDA acts as the overall planning agency for the GOP, establishing priorities and coordinating all foreign assistance for government departments, agencies and state owned enterprises. This role was considerably strengthened after the February, 1986 revolution. NEDA works closely with the USAID in the review and approval of USG funded projects and working relationships are well established. The AID/Exim team has met with NEDA. Both NEDA and USAID are in agreement on both the importance of funding sound development efforts compatible with MAI objectives and the sectoral emphasis of the Project.

The Department of Finance (DOF) - The DOF approves the financial terms and conditions of foreign assistance to the Philippines. It will be instrumental in deciding what portion of the grant element of the mixed credit facility is passed on to borrowers and in determining which parties will be responsible for taking the foreign exchange risk. Exim Bank requires that the DOF will also be required to guarantee repayment of the U.S. loan portion of the facility.

Central Bank (CB) - The key role of the Central Bank will be to allocate foreign exchange for borrowers of the facility so the latter can convert peso earnings to dollars to meet their repayment obligations under the Exim guarantee.

The Development Bank of the Philippines (DBP) - The DBP is a Government development bank which lends to both public and private enterprises. It has undertaken a very successful revitalization program since 1986. Its role under this Project will be as a conduit of the DOF for loans to the private sector, and possibly to public sector entities, which it will guarantee. Loans will either be direct from the DBP to such enterprises or wholesaled through the commercial banking system for private sector borrowers. Terms and conditions of these lending arrangements will be determined by the DBP and the Department of Finance. The GOP may also designate other financial institutions such as the Land Bank.

The Coordinating Committee for the Philippine Assistance Program (CCPAP) - As the PCIS Project is part of the Multilateral Assistance Initiative (MAI), the CCPAP has a coordinating role in setting priorities. As such it works closely with NEDA within the framework of the Investment Coordinating Committee (ICC).

The Investment Coordinating Committee (ICC) - The ICC was established as a forum so that the various GOP Departments are kept informed of the investment programs and policy proposals of the Government. As such it allows for issues to be surfaced and decisions made to assure a more complementary and coordinated effort among the various line agencies. The DOF acts as Chairman and NEDA as the Secretariat of the ICC. Funding proposals under the Project will be vetted through it.

In view of the high priority given to power and telecommunications, the likelihood is that most of the funds will be utilized for power and telecommunications projects. The key governmental entities for these sectors are the National Power Corporation (NPC) and the Department of Transportation and Communications (DOTC).

The National Power Corporation (NPC) - The NPC is a state enterprise in charge of power generation and transmission. Due to power shortages in Metro Manila and Luzon, the NPC will likely receive major funding under the Project for new power plants and transmission lines. Loans will be made directly to NPC with a guaranty by the DOF. NPC can also purchase power from the private sector under Build Operate Transfer (BOT) arrangements. (One such BOT project has already been commissioned but the approval process took nearly two years.) A principal purchaser of NPC generated power is Meralco, a privately owned company which distributes power in the Metro Manila area. It has one generating plant which may receive funding from this Project for rehabilitation. Meralco may also purchase power from private producers so BOT arrangements are possible.

The Department of Transportation and Communication (DOTC)- DOTC will be a key player as a GOP line agency in charge of policy and programs for the development of telecommunications, ocean shipping, railway, urban transport and airports. The principal private sector organization in the telecommunications field is the Philippine Long Distance Telephone Company (PLDT), which could be a loan recipient under the Project if so determined by all parties.

On the U.S. side, the key parties involved in Project administration will be the Export-Import Bank and the USAID. Considerable promotional assistance will be provided by the Department of Commerce, including its Foreign Commercial Service (FCS) staff based in Manila as well as private sector organizations such as the Philippine-US Business Council. The USAID will be responsible for project screening to assure that the developmental criteria discussed later in this implementation section are met. The Ex-Im Bank will administer the AID grant funds as well as its own grant resources and loan guarantees and approve loans in accordance with its operating procedures which are forwarded to NEDA through USAID for approval.

B. SUBPROJECT SELECTION AND REVIEW PROCEDURES

Overview: To meet developmental and MAI objectives as well as trade objectives, it is critical that procedures are in place to screen for development impact and policy considerations early in the project selection process. Specific development criteria have been developed to screen each PCIS project activity. While the criteria take into consideration policy implications, the Mission will look to other Mission programs to drive policy dialogue.

Implementation Criteria and Management

1. Subproject Selection Procedure and Criteria

The project will support discrete individual subprojects or activities in power, telecommunications, transport, construction equipment, and equipment for environmental management and protection. Since specific subprojects or activities will be identified subsequently, important economic considerations and criteria involving three screening processes will be done prior to transferring the funding request to Exim Bank. They are:

- Subproject Identification
- Subproject Selection Criteria
- GOP Review/Concurrence

a) Subproject Identification: For the public sector the concerned GOP department or agency will be responsible for concept proposals for public sector subprojects which in turn will be forwarded to NEDA. For the private sector, the Intermediate Credit Institution (ICI) will prepare a concept proposal for an identified private sector subproject which also will be forwarded to NEDA. The subproject may be selected from a list of pipeline projects that the GOP has identified and/or approved for implementation or may be identified and selected by the ICI in collaboration with its prospective client.

Depending on the specific project proposal, USAID and NEDA will either rely on the the appraisal of subproject proposals submitted by either the ICIs or GOP departments or supplement this with its own independent reviews. For most proposals we expect that the GOP project appraisal process will be relied upon to the maximum extent possible.

DBP will send complete dossiers on a particular transaction through AID for AID approval for forwarding to Eximbank. However, Eximbank will respond on behalf of both agencies. Administrative review by both, including Eximbank Board action, can be completed in 6 weeks.

b) Subproject Selection Criteria: Full criteria to screen projects will be determined by USAID and the GOP early in the project implementation stage. Criteria will be based on MAI objectives and economic considerations and are expected to conform to the following guidelines:

MAI/Philippine Assistance Strategy Considerations:

Subprojects in the priority sectors of power, telecommunications, transportation, communication equipment, and equipment for environmental protection and management.

Subprojects in those sectors which facilitate expanded private sector activity;

Subprojects which bring in competitive U.S. technology which heretofore had been precluded from participation due to other countries' concessionary financing packages;

Subprojects which have maximum visibility and demonstration effect, to include:

- A completion period of three years or less; and
- Preferably geographic concentration in an area of A.I.D. interest;

Subprojects where there is a likelihood of significant development impact and consistency with the Philippine Assistance Program development strategy, to include the following considerations:

- likelihood of significant effects on technology transfer, privatization, decentralization (to include urban areas outside Metro Manila) or the environment;

- consistency with and/or contribution to implementation and/or maintenance of policy reform objectives for the sector or subsector;

- technical and economic soundness of sector/subsector system and investment plan;

- degree of fit with and/or contribution to sector/subsector investment plan;

- likelihood of significant impact on the investment climate;

- likelihood of significant impact on the country's international reserves and external debt positions;

- likelihood of significant economic benefits, i.e., increased income or reduction in expenditures of beneficiary firms and the population;

- in the case of a public sector subproject, clear indication that the proposed activity does not have a negative impact on the private sector;

- in the case of a public corporate sector subproject, no reliance on continuing excessive national government equity contributions and/or subsidies for recurrent costs; and

- in the case of an existing or potential private sector monopoly or oligopoly, initial indication that effective regulation and other anti-trust measures are in place or can be established.

Economic Considerations:

- Where benefits are quantifiable, an economic internal rate of return greater than or equal to the National Economic and Development Authority's prescribed social rate of discount (currently 15 percent);

- Where benefits are unquantifiable, subproject cost effectiveness relative to alternative approaches and demonstrated likelihood of achieving required level of benefits given subproject economic costs;

- To ensure subproject sustainability, demonstrated likelihood of financial viability such as reasonable assurance of recurrent cost financing, cost recovery or continued profitability and liquidity; and

- Sensitivity of subproject viability to factors subject to uncertainty;

- Foreign exchange efficiency, to include:

    - A foreign exchange resource transfer ratio (foreign exchange inflows and/or savings ratio to foreign exchange outflows) of at least 1:1; and

    - Competitiveness of imported inputs and services, both for investments and operating and maintenance requirements, at given quantities relative to other sources of the same quality and level of technology; and

    - In the case of an existing or potential monopoly or oligopoly, sufficient assurance that effective regulation and other anti-trust measures are in place or arrangements for which will be undertaken prior to subproject implementation.

c) GOP Review/Concurrence: USAID will inform the GOP of the results of USAID's appraisal or review of appraisal. The GOP may conduct its own review of the subproject proposal, if needed, for endorsement to the cabinet level Investment Coordinating Committee (ICC). The GOP review may be done simultaneously with the A.I.D. appraisal. For projects already approved by the ICC, USAID will seek GOP concurrence to fund the subproject with PCIS funds.

C. Implementing the Screening Process:

Initial project screening will concentrate on the illustrative project detailed in the Annex G. USAID will discuss these projects with NEDA as well as sponsoring GOP departments, state owned enterprises and/or private businesses to verify they have a high priority from the Philippine side and that they are in conformance with MAI objectives. Not all of them can be financed by the PCIS. A winnowing process will take place, and other project proposals will surface once the promotional program begins, both in the public and private sectors.

To enhance and accelerate the initial screening process, a U.S. Consultant will be hired for a period of approximately three months to work in the Philippines to provide expert advice in establishing or refining necessary procedures and processing arrangements, further analyze the illustrative project list and provide advice to Philippine and U.S. sponsors on what must be done to meet the criteria of the PCIS and, where conditions merit, to put the project preparation process on a fast track. The consultant will advise the GOP and USAID on an initial priority ranking including which projects are likely to be ready for funding soon after the facility is operational.

Thus, project proponents and/or U.S. vendors can make application to Exim Bank through the GOP and AID in a manner currently used for Ex-Im Bank's traditional export financing. The difference would be that this program would first require that USAID clear for application for access to the PCIS.

Public sector projects would be referred by the appropriate line department and have a DOF clearance. They will be supported by an application form and a feasibility study whose content is sufficient to meet PCIS criteria with a copy to the DOF and USAID. No additional action from NEDA would be required after it completes its internal review with the exception of getting ICC approval for projects over US $10 million. As in the case of the private sector these projects as well would require that they first be passed through USAID for approval.

Private sector projects would be referred by the project proponent or U.S. vendor to NEDA and DOF for GOP clearance. No additional action from NEDA or the Board of Investment (BOI) is required.

Subsequent to USAID's determination that the sub-project meets AID's development criteria, it will be sent on to Ex-Im with a recommendation for a preliminary commitment in favor of either a Philippine public or private sector entity or an American sponsor. Ex-Im Bank will determine the level of concessionality on each project proposal. However, the grant element defined on an OECD basis will be at least 35% or more. The repayment terms and loan tenor will be the same for all U.S. firms bidding on identified capital projects in targeted development sectors.

D. Follow-on Procurement Arrangements:

The most likely case involving public sector entities is a tender for turn key construction and/or equipment for a project sponsored by that entity, for example, a power plant with transmission lines to the grid or a fiber optics cable system.

Normally, the American firm would be responding to an international tender either alone, as the U.S. component of a project with multiple procurement sources. More and more frequently such tenders ask for technical and financing proposals from firms submitting offers. In that case it is very important that the U.S. firm, or competing firms, are able to obtain a preliminary commitment from the USAID/Ex-Im facility for use in its proposal. The U.S. party would register its interest with the client and the Department of Finance (DOF) and submit, through the client and USAID, the application form discussed above. At that point the screening and approval process described above will go into effect leading to a preliminary commitment on the part of the Ex-Im Bank subject to USAID/NEDA concurrence.

In the case in which the U.S. firm is one part of multiple procurement sources, the Ex-Im commitment will pertain only to the U.S. partner and financing will be limited to those goods and services whose source and origin are from the United States. In the case where more than one U.S. firm is competing, the preliminary commitment will be given to all those meeting USAID/Ex-Im Bank criteria.

In the case of international competitive bids (ICB's), a U.S. firm(s) must be awarded the procurement contract by the sponsoring organization; if not the process is terminated. If the U.S. firm(s) wins the award, this information is passed to the Ex-Im Bank, with a copy to USAID, and a request to Ex-Im to obligate funds for the amount of U.S. procurement needed.

In the case of a private sector sponsored proposal applications for either a PC or obligation of Ex-Im funds is initiated through their selected ICI. The application should be supported by a feasibility study which meets the normal criteria of the EXIM Bank economic and financial standards as outlined in Exim's Operations Manual.

Once approved by the Ex-Im Bank the Philippine buyer and U.S. vendor would conclude contracts and procurement would take place through Letters of Credit opened in favor of the U.S. supplier or suppliers. Payment would be made either as a lump sum once the goods have been shipped or as progress payments in accordance with a fabrication schedule.

In private sector projects approved by an ICI, a procurement list and supplier pricing information will be requested of the borrower as part of the application process. Once approved by Ex-Im, Letters of Credit will be opened in favor of the designated supplier and payment made once the LC conditions are met.

In public sector projects limited to U.S. firms, once bidding takes place and an award is made the same procedure will take place, i.e. Letter of Credit.

INTERMEDIARY CREDIT INSTITUTION

All PCIS credit will be extended in US Dollars. The DOF will select public banks to act as intermediary credit institution. These ICIs will extend a full guarantee. USAID and Exim are continuing to explore alternative methods of providing Ex-Im Bank its counter guarantee to allow greater access to PCIS by the private sector.

E. Project Promotion:

As a new Project a variety of promotional activities will be needed so that the U.S. private sector becomes active in taking advantage of the export opportunities to be made available through the PCIS. Promotion is also necessary in the Philippines so that all potential public and private sector entities in the four sectors are made aware of the attractive financing terms and quality U.S. products and technology to be made available for Philippine development.

A U.S. public/private sector collaboration will be undertaken to publicize the Project through the Department of Commerce and the Philippine-U.S. Business Council, principally through public briefing sessions and periodic publications. These will be focused, not only on the general parameters of the Project, but more specifically on the export opportunities arising from the preliminary list of projects already identified and to be further defined once the facility reaches its operational phase.

In the Philippines, organizations like NEDA, as well as the AmCham and the Philippine Chamber of Commerce and Industry (PCCI) will distribute information concerning the PCIS . USAID, USIS, and the FCS will also provide information and coordinate their efforts to publicize the Project.

F. CONSULTANT REQUIREMENTS

The services of two long term and a number of short term U.S. consultants are foreseen under the Project. The first will be a Project Expediter discussed earlier who will expedite the screening process. This consultant will be needed for a period of some three months.

Two long term advisors will be hired to provide expertise on American technology and products to the National Power Corporation (NPC) and the Department of Transportation and Communications (DOTC). Both consultants will be thoroughly familiar with state of the art U.S. technology and products in their respective fields and will be able to assure that PCIS is targetted on U.S. goods and services of most benefit to the Philippines. These advisors would be contracted for an initial period of one year each at which time AID and each of the Philippine organizations would determine whether or not an extension for another year is warranted.

A number of short term consultants could be contracted for a variety of purposes including appraisal of technology options, review of feasibility issues, review of bid documents, appraisal of technical proposals, etc. Total cost of technical assistance is projected at US $1 million from the AID grant with additional requirements funded through the PAP-support project.

G. MONITORING ARRANGEMENTS

Project monitoring will be divided between Ex-Im Bank and AID. The Ex-Im Bank will require two types of reports: physical work progress reports and technical operation reports.

Physical Work Progress Reports - These reports will be submitted quarterly by the GOP in connection with the construction, acquisition and delivery of materials, machinery, equipment, supplies and services. The report, to be submitted within thirty days after the quarter for which the report is prepared, will include the following information: Project schedules, Project expenditures, Work completed; Equipment delivery; and Construction photographs.

Technical Operation Reports- Within sixty days following the termination of each fiscal half year a report will be required to include, if relevant to the nature of the sub-project, information concerning raw materials, production and sales data, manufacturing costs, capital improvements, unusual or unexpected conditions or problems encountered and such other related information as Eximbank may reasonably request.

USAID personnel will make only limited monitoring visits. Given the limited role USAID would play in actual subproject implementation. (See State 300722).

H. IMPLEMENTATION SCHEDULE

The implementation schedule for key events is planned as follows:

Event	Timing
Request for Assistance	9/90
P.P. Approval	9/90
Grant Authorization	9/90
Grant Agreement	9/90
AID-Ex-Im working agreement	10/90
AID-Ex-Im 632(b) transfer	11/90
Short term consultant contracted	12/90
Master Agreement	10/90
All CPs met	11/90
Promotional program begins	11/90
Initial screening begins	11/90
Request for preliminary commitments (PC's) begin	11/90
Long term consultants contracted	11/90
Issuance of PCs begins	12/90
Base line consultants contracted	1/91
Final approval of DOF or DBP for initial transactions	3/91
Ex-Im Board authorization begins for initial projects	4/91
Letters of Credits opened	5/91
Funds fully committed by Ex-Im	9/91
Process Evaluation	11/91
Impact Evaluation	11/92

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I. Mission Management

Central Mission project management will be within the Office of Capital Projects(OCP). OCP will be assisted by the Private Enterprise Support Office (PESO), the Office of Financial Management (OFM) and the Office of Legal Affairs(OLA). Management requirements on USAID will be substantially lessened due to the active involvement of Ex-Im Bank.

Requirements for reports to Ex-Im should fulfill most if not all requirements for reporting to AID. In addition, review of these reports by Ex-Im will provide data which will greatly simplify review by AID. Site visits will be undertaken by AID, as deemed necessary, but will be generally limited to specific circumstances which warrant on-site review. As stated earlier, USAID will review proposed projects to ensure they meet appropriate development criteria. Since Ex-Im will provide the channel for the funding, financial monitoring should be extremely limited.

J. EVALUATION PLAN

Two major evaluations will take place under the Project, a process evaluation after the first year of project implementation and an impact evaluation after the third year. In order to establish baseline data, especially on trade statistics and market share, a consulting team will be hired shortly after the facility becomes operational (projected for January 91).

Process Evaluation - This evaluation will focus on the effectiveness of the administrative arrangements and implementation process of the Project. It will also review progress on project inputs and outputs.

Impact Evaluation - This evaluation will focus on the impact of the project on development in the Philippines in the four eligible sectors to be assisted including increased power availability, expansion of the telecom system, improvements in transportation, and the trade impact for U.S. suppliers in terms of levels of U.S. trade as well as additionality in the U.S. trade share. It will also estimate the U.S. employment impact as result of the Project.

IV. FINANCIAL PLAN

A. Financial Objectives

The financial arrangements seek to accomplish three objectives:

(1) Make the facility (the mechanism for financing the buyer's purchases) as convenient as possible to the buyer.
(2) Adopt normal commercial channels and practices as much as possible.
(3) Seek the simplest procedure for applying U.S. government funds.

The arrangements are based on the following premises:

(1) The governing transaction is a purchase of U.S. goods or services by a Philippine buyer from a U.S. seller.
(2) As all imports over US$50,000 require Central Bank (CB) approval, the CB will provide documentation which sets the financial parameters for each transaction (on a case-by-case or program basis).
(3) The purchaser will issue an obligation payable to the seller whose amount and terms conform to the CB parameters.
(4) Payments to the seller, to the extent covered by the facility, would be made by a U.S. commercial bank which would be reimbursed or guaranteed by Eximbank.

5 and 6 relate only to a Philippine Private Sector Purchaser

(5) Development Bank of the Philippines (DBP) or another financial institution selected by DOF will serve as an intermediate credit institution for channeling PCIS funds to private sector projects.

(6) Such institutions could serve as obligors for U.S. commercial lending with these commercial funds guaranteed by the GOP.

ICI transactions will be of two types: Special Transactions which will generally be large and whose terms will be specified in each case, and Programmed Transactions which will generally be small and will occur in accordance with a pre-agreed program. It is anticipated that Special Transactions would be the type most frequently used.

Transactions may be either for public or private sector buyers. Typically, public sector transactions will be Special Transactions; private sector transactions may be either Special or Programmed. Although the buyer (public or private) may require the approval of many governmental authorities, the financial integrity of the transaction is to be wholly based on CB documentation; payment of the debt to the ICI shall depend on no other governmental sanction. The ICI will take the credit risk of these sub loans with the DOF guaranteeing repayment of ICI obligation to the PCIS lender. If the proposed (partial) privatization of DBP comes into force, it is intended that all private sector transaction will be handled by the private sector successor of DBP and the DOF guarantee would remain in place for any obligation of the DBP to U.S. commercial bank lenders.

B. <u>Financial Structure</u>

The financial arrangements would be based on a Financing Agreement between Eximbank and the Government of the Philippines (through the Department of Finance) whereby Eximbank agrees to provide financing through grants and guaranteed commercial loans for purchases of U.S. goods and services by (public or private) entities in the Philippines for the four priority sectors. U.S. commercial bank lenders guaranteed by EXIM Bank also would be signatories to the financing agreement.

The basic financing offer for purchases under this Agreement would be that the Philippine economy is to pay not more than 65% of the U.S. dollar purchase price over a specified number of years at a specified interest rate as agreed by the DOF and U.S. commercial lenders. The maximum 65% loan funding for each PCIS projects would be provided by U.S. commercial bank loans guaranteed by Eximbank.

The minimum or remaining 35% would represent the "grant element" (USAID/SAI and Eximbank tied aid grant) which conforms with tied AID requirements. The grant element is intended to provide financing to the buyer and the Philippine economy on concessional terms; concessionality may be in the form of a lower than standard interest rate, a longer than standard repayment period, reduced purchase price and varying conversion rates of the Philippine Pesos to U.S. dollars. The grant element could be used immediately to reduce the obligation of the Philippine economy to remit U.S. dollars or to establish

a relending credit by a Philippine ICI with a stream of U.S. dollar principal and interest payments to Eximbank in respect of the purchase which is equivalent (on a discounted basis) to the basic 65% loan and 35% grant combination.

The Concessional Financing Facility (CFF) should define further with whom the DOF will undertake to assure that procurement decisions reflect the availability of the concessional financing, especially in competitive situations where tied aid credits are also being considered. EXIM would:

(a) consider raising the grant element to a level EXIM deemed appropriate; and,

(b) make its best effort to increase the grant element beyond 35%.

The CFF would provide that Eximbank and the GOP execute a Letter Agreement for each transaction (or group of small transactions) they wish to cover under the Financing Agreement and this Letter Agreement would specify the agreed applicable terms.

The DOF will select the commercial bank lenders. The banks will be selected at the outset of the project for the entire amount of the facility. Banks licensed to do business in the U.S. will be selected based on their interest in Philippine trade, their competitive financing terms and their willingness to hold Philippine obligations resulting from the PCIS, subject to Eximbank's guarantee.

Payment Procedures: AID funds would be deposited incrementally in an account at the U.S. Treasury Department accessible by Eximbank for packaging with Eximbank grant and Eximbank loan guarantees. Eximbank would approve a letter of credit. This would be the vehicle to disburse the grant and guaranteed loan. The letter of credit must be payable at a U.S. bank. Eximbank would give a reimbursemnt undertaking for the grant and a repayment guarantee to the lender for the guaranteed loan. The guaranteed lender in turn would give a reimbursement undertaking to the advising or confirming letter of credit bank for its share of the letter of credit payments. We anticipate that there are likely to be multiple letters of credit to cover multiple endorsers and suppliers.

If the letter of credit is used for disbursement because the borrower paid suppliers directly, then the borrower would require reimbursement from Exim and the guaranteed lender for relative shares of the grant and guaranteed loan portions of the facility.

An Eximbank agreement for individual transactions would cover purchases of U.S. goods and services from U.S. exporters with requirements for supporting documentation. These would include invoices, bills of lading, supplier certificates and evidence of compliance with U.S. government funding regulations.

For private sector purchasers only, the DBP or other ICIs could be the obligor under EXIM Bank financing; they would:

- handle relations with the purchasers under PCIS
- expedite and assemble all documentation required by GOP, Eximbank, and AID for approval of a purchase and the related financing
- make the initial review of documentation on behalf of Eximbank and AID
- assume the credit risk in respect of the purchaser's obligation
- execute lending documentation with the purchaser in conformity to the terms of the Letter Agreement for each transaction
- collect payments from the purchaser and remit them to the obligee abroad.

C. Flow of Funds

The two methods that will be used to transfer funds under this project are the Letter of Credit to the Philippine Public Sector (Purchaser) and Letter of Credit to the Philippine Private Sector (Purchaser). The funds flows for these two are basically the same, but have different intermediate institutions. The bulk of the funds under PCIS would remain in the U.S. and would be paid from U.S. Treasury accounts through commercial banks to U.S. exporters. It is envisioned that small amounts might be payable to Philippine institutions (such as DBP and ICI) as fees. Thus funds flow would be as follows:

1. Letter of Credit to Phil Private Sector: U.S. Treasury (AID grant and Exim tied credit) of approximately 35% of the value plus U.S. Commerical Bank Lender's approximately 65% is issued to a U.S. or other Commercial Bank who in turn will issue an L/C to a potential U.S. Exporter. Repayment will come from the Philippine purchaser to the ICI to the U.S. Commercial lender.

2. Letter of Credit to Phil. Public Sector: As in the private sector program, U.S. Treasury (AID grant and Exim tied credit) of approximately 35% of the value plus U.S. commerical bank Lender's approximately 65% is issued to a U.S. or other Commercial Bank who in turn will issue an L/C to a potential U.S. exporter. However, repayment will come from the Philippine purchaser or the Department of Finance directly to the U.S. Commercial Bank.

An alternative method is where the Borrower may purchase the items, make payments to the suppliers and then request that disbursements be made to reimburse it for the financed portion of such payments. While disbursements of the financing could be handled through reimbursement to the buyer after the purchase was made, a letter of credit is preferable because:

(1) The Philippines has strict import controls and a letter of credit may thus be required in most cases in the normal course of business.

(2) Letter of Credit charges may be less burdensome or at least appear less burdensome in a transaction where:
- large subsidies are being otherwise provided
- commercial banks are providing funds subject to Eximbank's guarantee

Technical Assistance/Monitoring/Evaluation/Audit

Flow of funds under this component will primarily be paid directly by USAID. If the need arises, USAID may authorize host country contracting in which payments will be made by advance/liquidation method, direct payments and/or reimbursements to the GOP for costs incurred.

D. Cost Estimates & Financial Plan

The total project cost is estimated at $352 million. Project funds will be provided by AID (MAI), Eximbank tied aid credit (Grant) and commercial bank loans guaranteed by EXIM Bank.

Table 1 reflects the planned yearly obligations for the life of projects. The illustrative project budget is presented in Table 2 (a and b) as the Summary of Cost Estimates and Financial Plan for 1990 obligations only. Tables 3 and 4 show projections of expenditures by fiscal years and by project elements (also for 1990 obligations only).

1. USAID/Manila

The AID contribution for the life of the project is anticipated at $85 million or 24% of the total. While most of AID's costs are expected to be foreign exchange, there will be local currency costs associated with technical assistance, evaluation and monitoring. The distribution of AID project costs for FY 1990 obligations are estimated to be: PCIS component(97%); and technical assistance, evaluation, monitoring, audit (3%).

2. GOP/Philippine Private Investors Contribution

A host country government contribution is not required for the PCIS project because of nature of trade support which the project will support. However, the GOP and/or the Philippine Private Investors will contribute to the sub-projects by either providing land, technical services and support, use of facilities, equipment, supplies and/or funds. Also, as discussed in Section A of the Financial Plan (Financial Structure), the grant element for the PCIS may be increased on a case by case basis.

3. Recurrent Costs

Any project's sustainability can be gauged on the ability of the implementing entity (GOP or Private Sector) to finance from their own funds or other non-AID sources, the recurrent costs that may be incurred after the project life. In this case, it is important that the implementing entities maintain sustainability or the sub-projects and meet future debt obligations incurred under the PCIS. The EXIM screening process will also include a review of the sub-projects future cash flows and financial structures to ensure sustainability and repayment of PCIS debt obligations.

TABLE 1

Planned Yearly Obligations
($000)

Fiscal Year	AID (MAI) (Grant)	EXIM Bank (Grant)	EXIM Bank (Guarantee)	TOTALS
1990	$29,000	$13,750	$79,393	$122,143
% of FY TOTAL	24%	11%	65%	100%
1991	$30,000	$45,250	$44,750	$120,000
% of FY TOTAL	25%	38%	37%	100%
1992	$25,000	$25,000	$60,000	$110,000
% of FY TOTAL	22.5%	22.5%	55%	100%
TOTALS	$84,000	$84,000	$184,143	$352,143
% of TOTALS	24%	24%	52%	100%

TABLE 2
SUMMARY COST ESTIMATE AND FINANCIAL PLAN (1991)
(For 1990 Obligations only)
($000)

PROJECT ELEMENT	AID (MAI) (Grant)	EXIM Bank (Grant)	EXIM Bank (Guarantee)	TOTALS
PCIS Component				
Projects	$29,000	$13,750	$79,393	$122,143
Total PCIS	$29,000	$13,750	$79,393	$122,143
TA/EVAL/MONT/Audit				
Tech. Assis.	$800			$800
Eval/Mont	175			$175
Audit	25			$25
Total TA/EV/MT/AU	$1,000			$1,000
TOTAL PROJECT	$30,000	$13,750	$79,393	$123,143

TABLE 2B
($'000)

PROJECT ELEMENT	AID and EXIM Bank FC	LC	TOTAL
PCIS Component			
Projects (see Note)	$119,663	$0	$119,663
Admin Fees	1,480	1,000	$2,480
Total PCIS	$121,143	$1,000	$122,143
TA/EVAL/MONT/Audit			
Tech. Assis.	$700	$100	$800
Eval/Mont	100	75	$175
Audit		25	$25
Total TA/EV/MT/AU	$800	$200	$1,000
TOTAL PROJECT	$121,943	$1,200	$123,143

NOTE: In exceptional circumstances (competition), LC could be a maximum of 15%.

TABLE 3

PROJECTION OF EXPENDITURES BY FISCAL YEAR
(For 1990 Obligations only)
($'000)

Fiscal Year	AID (MAI) (Grant)	EXIM Bank (Grant)	EXIM Bank (Guarantee)	TOTALS
1990	$0	$0	$0	$0
1991	$27,225	$0	$47,843	$75,068
1992	2,575	0	23,200	$25,775
1993	200	13,750	8,350	$22,300
TOTALS	$30,000	$13,750	$79,393	$123,143

Table 4

PROJECTIONS OF EXPENDITURES OF GRANT FUNDS
BY FISCAL YEAR AND BY PROJECT ELEMENT
(For 1990 Obligations only)
($000)

PROJECT ELEMENT	FY 91	FY 92	FY 93	TOTALS
PCIS Component Projects	$74,643	$35,700	$11,800	$122,143
TA/EVAL/MONT/Audit				
Tech. Assis.	$400	$300	$100	$800
Eval/Mont	25	75	75	$175
Audit			25	$25
Total TA/EV/MT/AU	$425	$375	$200	$1,000
TOTAL PROJECT	$75,068	$36,075	$12,000	$123,143

V. NEGOTIATING STATUS AND CONDITIONS PRECEDENT

Given the complexity of this precedent-setting project and the fact that coordination between a number of both USG and GOP agencies will be necessary, three documents will have to be approved: a project agreement, a concessional financing facility and a working agreement between Eximbank and AID.

Project Agreement: A draft project agreement is now in Washington being reviewed by AID and Exim. That agreement requires, besides the standard conditions precedent, that the grantee will provide an authorized Concessional Financing Facility Agreement between Eximbank and the GOP in a form and substance satisfactory to AID. In recognition of the need for interagency coordination it also calls for AID and Eximbank to enter into an interagency agreement for the disbursement of funds and for administration of the CFF.

Concessional Financing Facility Agreement: This agreement is now under draft and negotiation with the GOP and under review with AID.

Working Agreement between Eximbank and USAID: This document will restate a number of understandings discussed with the Exim during the past year. It will clarify others and form the basis for the operational relationship between Exim and AID. There is the need to balance different agency operating procedures that have invariably emerged during the more detailed final stages of project design as well as restating the basic objectives of the project as detailed in the project paper and in the project agreement.

VI. ECONOMIC ANALYSIS

As mentioned in the Project Paper, the economic viability of selected subprojects will be established after appraisal. However, an initial indication of possible subprojects and activities can be obtained based on the sector foci and on GOP priorities in these sectors. Possible subprojects may include energy subprojects on fuel diversification and development of indigenous resources, conservation, generation, transmission and distribution for ensuring adequate uninterrupted power supply; national telephone program and rural telephone program activities; urban transportation subprojects outside Metro Manila, and activities alleviating constraints to land, air and interisland shipping transport; construction equipment; waste disposal, pollution control activities, and equipment for natural resources demand management and conservation programs. A discussion of the expected general project benefits and those in the various subsectors as well as possible benefits measurement issues is presented below based on this indicative array of activities and planned economic appraisal approaches.

a) Expected Overall Economic Impact

In general, the project will help attain desired levels of infrastructure investment necessary for sustainable market based private sector led sustainable growth. Improved availability and reliability of power will help better utilize the country's current production potential, maintain investor interest and attract additional private investment, and expand market opportunities. Telecommunications and transport linkages between Metro Manila, other key cities, market towns and production areas will help improve market efficiency, stimulate economic growth, create employment, and spread the benefits of growth. Growth areas in the country will benefit from increased efficiency and level of production and marketing activities resulting from improvements in power service and telecommunications; from enhanced access to resources and markets resulting from transport improvements; from increased production and distribution efficiency due to improved living conditions from a healthier and more aesthetic environment; from increased access to education and increased returns to investment in human capital; and from increased employment during and after construction.

b) Social and External Effects

Conventional economic analysis may not capture adequately some of the sub-projects' benefits. This is due mainly to market distortions that result in significant differences between social values and market prices. Valuation of incremental economic gains from an infrastructure improvement project involving user fees (such as a transport project) is in part a function of the distribution of income. Measurement of willingness to pay is dependent on the distribution of income, with alternative income distributions leading to different demand functions and different market information. The prevailing distribution of income will thus influence market pricing and resource allocation decisions. Since direct means for redistribution of income are usually difficult to implement, income redistribution among income classes and among regions is a significant contribution of infrastructure projects. Also, infrastructure improvements are expected to have a major impact on regional location decisions, again with major income redistribution effects. Location effects are particularly relevant to infrastructure projects.

Induced long term effects on employment and investment are also significant, especially under less than full employment conditions and in the presence of capital market imperfections. Since unemployment and underemployment exist, market prices for factors may overstate real costs depending on the cause of unemployment. Labor market imperfections are often a major cause of job mismatch. Where project activities provide employment in areas where other means of relief are not available, the resulting employment is a special benefit from the project. To achieve consistency in investment allocation decisions, possible positive employment effects from other expenditures that may be displaced by the project investment should be taken into account.

c) Benefits of Power Projects

1) Expected Benefits

Given the pressing power supply situation in the country, the most likely projects with the desired maximum immediate impact in this sector would be in increasing availability and reliability of power supply. Frequently identified benefits from this type of projects are mainly related to use. On the other hand, power projects that focus on alternative energy sources, conservation and/or improved conversion technology, involving longer gestation periods, have added benefits in the form of cost savings. These benefits are discussed in turn.

Benefits related to power use include: increases in farm and enterprise productivity and output with the reduced energy cost, thus increasing profitability of farms, industries and commerce; improved investment climate; improved standards of living; and assistance to achievement of the government's health and education objectives.

Farm and enterprise productivity is expected to improve as a result of a range of activities made possible by increased electrification. Examples of activities that can result from increased and reliable power supply include: electrically powered manufacturing enterprises; irrigation and fish farms where pumps are used; electrically powered grain drying and processing, storage and fumigation systems; refrigeration of perishable agricultural products; and automated livestock processing/breeding systems.

Increased and reliable supply of electricity enhances living standards in many ways, such as: utilization of appliances for education/entertainment/leisure or health; easing of home chores which permits women to engage in other activities; night lighting to deter crimes; and outdoor lighting of community facilities which permits certain activities to be conducted at night.

Benefits related to health and education include: reliable power sources for hospitals and clinics; refrigeration of vaccines and other medical supplies; reduction in health hazards through food refrigeration; observed negative correlation between electrification and population growth rate; and expanded and improved delivery of extension services and education.

Benefits related to energy cost savings include reduced operating costs of enterprises, reduced household expenditures, and increased foreign exchange savings from reduced fuel import payments.

2) Benefits Measurement

In practice, it is necessary to confine standard economic appraisal to what can be measured and to supplement this as necessary with descriptive analysis. In general, the benefits which can be measured are: (1) direct benefits to households, reflected in power collection revenues; (2) direct benefits to farms and enterprises also reflected in power collection revenues; (3) "surplus" benefits to households, farms and enterprises, reflected in the net effects on household or farm income or enterprise profits, including reduction in household expenditures or operating costs for energy requirements; and 4) in the case of energy conservation/source replacement activities, additional direct benefits to the economy in terms of savings in the costs of power generation, including savings in foreign exchange costs.

Descriptive analysis of households, and of household demand, can be couched in terms of standard of living indicators, the number of people demanding service, and the purposes for which they use or are likely to use electricity. Analysis of the growth of the areas benefited, their history - whether people are likely to move into or remain there - is also important.

Where there is strong demand for "productive" uses, revenue collections as basis for benefit estimation will be more than sufficient to justify a good subproject. Revenue collections from enterprises should boost the activity, unless tariffs are low. Adding the "surplus" benefits in terms of increased household or enterprise income will boost justification further. On the other hand, where the demand for "productive" uses is small, and is coupled with low tariffs and a low level of demand from households, justification will be difficult.

d) Benefits of Telecommunications Projects

1) Expected Benefits

Widespread telecommunications facilitates two interactive links that enable people in all regions to participate and share in the process of economic development. Telecommunications provides a means of contributing to the reduction in regional disparities and the gap between the potential of an area and the country as a whole for development and the actual realization of these potentials. Any reduction in these disparities can be a significant step toward the reduction of income and expenditure differentials. Telecommunications enable a more equitable distribution of gains from the development process itself. These improvements will create greater opportunities and inject greater productivity into the operation of communities touched by the telecommunications network. Motivational stimuli, imparted through easy access to market information and by two-way interactive flows of ideas and information among geographical areas can contribute to the national synergy essential for private sector led market based sustainable growth.

Improved or expanded telecommunications may be expected to result in benefits in: agricultural, commercial and industrial productivity; household activities; health care and education; planning and development; and migration and mobility.

Expected benefits on agricultural, commercial and industrial productivity include: reduction in transaction costs for business and government; farmers and traders access to price information; improvement in communication organization; expansion of business opportunities; better utilization of scarce management skills; incentive to a manufacturing program for telecommunications; increase in tourism; infrastructure support to power supply, water supply, waterways, transportation, etc.; and agricultural support for the supply of inputs and for irrigation control.

Expected benefits on household activities include: improved social activities, expanded entrepreneurial activities, better purchasing decisions, and reduction in transportation expenditures.

Expected benefits related to health care and education include: better health referral system; development of a higher level of health care program; access to higher medical centers for assistance in diagnosis, medical supplies and ambulance dispatch; acceptance by more doctors of rural assignments, with less possibility of professional isolation; expanded role of radio and television informal education; access by rural people to extension workers; access by extension workers to higher levels of information and assistance; and more contact with individuals/families/small groups at relatively shorter intervals.

2) Benefits Measurement

In the past, the benefits of telecommunications were measured by aggregate international comparison of input-output tables, or the relationship between GNP and telephone availability or usage, or the analysis of countrywide transport, energy or locational objectives. The survey of literature and appraisal and evaluation experience presented thus far, however, suggest that benefits of a specific telecommunications project or investment program cannot be readily identified and measured by very aggregative methods. In more recent years, attention has since been focused on microeconomic analysis in addressing the issue of telecommunications benefits.

Standard economic appraisal providing internal rates of return can be used to help determine not only the amount of resources that should be devoted to telecommunications but also the best way to allocate those resources within the sector. However, artificial restrictions on the growth of telecommunications and massive unmet demand in a developing country make the rates of return to telecommunications relatively high. One school of thought argues that these high rates of return may reflect benefits accruing only to higher income groups, and that expansion of the sector merely exacerbates income inequality. To examine the validity of such arguments, to the extent available, two kinds of information should be reviewed. First, the estimated costs may be compared with the estimated benefits to users based on (1) their observed willingness to pay for access and calls, (2) their observed willingness to incur travel costs to where service is available, (3) their observed willingness to purchase or rent connections from intermediaries, or (4) their observed willingness to incur higher communications costs in the absence of a telephone or other telecommunications service. Second, available information on the characteristics of the beneficiaries of the improved and expanded services and on how those beneficiaries use these services will be reviewed. These data will then be qualitatively analyzed in the light of the country's national development policy goals and programs.

e) Benefits of Transport Projects

New or improved transport facilities resulting from the project will lead to reduction of transport costs. While this benefit will initially accrue to the users or owners of the facilities, competition, profit maximization, or government pricing policies will induce the initial gainers to share it in various degrees with other groups, such as producers, shippers and consumers. Therefore, the cost reduction will benefit the whole economy and not merely the immediate users of the facility.

The types of reduction in transport costs vary across modes. Road improvements are expected to lead to lower operating costs for vehicles and rolling stock. Better maintenance of roads will also reduce vehicle operating costs, passenger and freight delays, accident costs, and the level of future maintenance and rehabilitation expenditures. Proper maintenance will also help prevent road closures and the losses associated with such closures (e.g., diversion time, loss of perishable goods, etc.). Port improvements are expected to lead to savings in the costs of ship delay and cargo handling. Better and larger port facilities will make possible the use of larger ships and eventually lead to some savings for shipping companies.

In cases where the transport subproject diverts traffic to a new or improved facility from other modes of transport or from other routes, the benefits will be in terms of the difference in transport costs on the old route or mode of transport and those on the new facility. The relevant costs are the avoidable costs or the savings involved in the shift. If diversion occurs between different modes wherein transport costs may not be directly comparable, the relevant cost is the marginal cost of carrying traffic in the new mode. If the diverted traffic is only part of the total traffic for a certain mode, and that mode has excess capacity, the marginal savings would be substantially less than what would be indicated by a comparison of average costs.

Improvement of or a new transport facility will lead to increased output. The net value of this incremental output is the relevant measure of economic benefit. New construction or improvement of existing rural roads with little traffic, as well as all road projects which are justified on large increases in economic activity and traffic, will provide savings to road users and stimulate growth of the rural communities. To measure the development impact, the following issues are relevant: (1) how are savings in transport cost distributed among producers, traders and consumers; (2) how will beneficiaries respond to lower transport costs, e.g., will lower input costs, higher farmgate prices and better transport service encourage producers to increase production; and (3) what nontransport constraints exist which may prevent the beneficiaries from responding to transport improvement? Given indications that transport costs do constitute a large proportion of production costs, the transport subprojects will likely have a high marginal impact on farmer incentives.

Transport improvements are expected to reduce travel time and enhance quality of transport services. Time has a money value. On the other hand, this has to be evaluated on the basis of the types of opportunities created by the increased availability of time, whether for increased production or voluntary leisure on one hand or for involuntary idleness on the other. Since there is large scale unemployment in the rural areas, the savings in time may not be particularly viable. However, population density and commuting in the urban areas may result in large savings in time as well as increased worker productivity.

f) Benefits of Construction Equipment Investments

Since construction equipment will be used in infrastructure projects, the economic benefits from construction equipment are derived from the benefits from infrastructure projects. Increased equipment availability will increase the infrastructure stock. In addition, improved efficiency in construction as a result of investment in equipment will improve the productivity of capital and the efficiency of investment.

At the project level, entities acquiring equipment for their own use will have savings in operating and maintenance costs for a given level of activity or given purpose as potential measurable benefits. Private sector firms acquiring equipment for their own use will have increased income due to expanded operations as potential benefits in addition to reduced operating and maintenance costs. For firms engaged in the provision of construction equipment services, increased income from rental/service fees constitutes potential benefits.

g) Benefits of Environmental Management and Protection

The environmental protection and management activities envisioned for this project mainly involve waste disposal, air and pollution control, and investment in equipment for (natural resource) demand management and conservation programs.

Benefits from waste disposal and air and pollution control include potential cost savings relative to existing methods; reduction in health problems (which would result in savings in health care expenditures, increased worker productivity and increased returns to investments in human capital such as education); and increased tourism (provided the benefits of tourism outweigh the costs).

Benefits from investment in equipment for natural resource demand management and conservation programs include cost savings relative to existing equipment used, and derived benefits from the programs themselves. Natural resource program benefits for old growth forests include preservation of biological diversity, educational and scientific values, and cultural significance of relatively undisturbed forests. Opportunity costs for these programs consist of foregone national income if alternative timber sources produce lower forest rents. Forest protection programs through control of illegal logging have important implications for efficiency and income distribution since the magnitude of illegal logging in the country is large.

ANNEXES

Annex A - GOP Letter of Request (not included)

Annex B - Statutory Checklist (sent to GC/ANE, H. Morris, by fax on 9/14)

Annex C - LogFrame (not formatted to facilitate transmission)

Annex D - Approval Cable

Annex E - Gray Ammendment Certification

Annex F - I.E.E.

Annex G - Description of Candidate Projects

Annex H - Background on Selected Sectors

Annex I - Section 611(e) Certification

ANNEX A

GOP LETTER OF REQUEST

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REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
NEDA sa Pasig, Amber Avenue Pasig, Metro Manila

Cable Address: NEDAPHIL
P.O. Box 419, Greenhills
Tels. 673-50-31 to 50

AUG. 2 7. 1990

Mr. Malcolm Butler
Mission Director
USAID Manila
Ramon Magsaysay Center
Roxas Boulevard, Manila

Dear Director Butler:

We wish to convey the request of the Government of the Philippines (GOP) for $ 125 million assistance consisting of $ 30 million in Multilateral Assistance Initiative (MAI) funds, and $ 95 million in U.S. Eximbank grant and loan guaranty to finance the proposed Philippine Capital Infrastructure Support Facility (PCISF). The proposed facility will provide financing for the foreign exchange costs of developmentally-sound infrastructure projects in the sectors of telecommunications, power, transportation and construction.

We have undertaken initial discussions with USAID and U.S. Eximbank officials on the general terms and conditions of the proposed facility. We look forward to holding continuing dialogues on the details of the facility within the next few weeks, with the end in view of concluding the GOP-USAID Project Agreement on MAI funds by 30 September 1990. We hope to conclude negotiations on the GOP-U.S. Eximbank Concessional Financing Facility (CFF) Agreement around the middle of November 1990.

In view of the importance of infrastructure development to GOP's efforts at achieving broad-based economic growth led by the private sector, we will highly appreciate USAID's favorable consideration of this request for assistance.

Thank you.

Very truly yours,

CAYETANO W. PADERANGA, JR.
Secretary of Socio-Economic Planning
and Director-General

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ANNEX B

STATUTORY CHECKLIST

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

Yes.

Yes.

A. GENERAL CRITERIA FOR PROJECT

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?

Congress cleared Notification on August 14, 1990.

2. FAA Sec. 611(a). Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes. Necessary plans and updated cost estimates are available for subprojects financed under the project. Total value of this "pool" of subprojects is greater than the project life-of-project funding total.

3. FAA Sec. 611(a)(2). If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N/A

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4. FAA Sec. 611(b); FY 1990 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

Yes.

6. FAA Sec. 209. Is project susceptible to 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.

7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

(a) Improved infrastructure will facilitate transportation, including exports, to and from Phils.
(b) Key infrastructural (e.g. power, telecon) improvements will further private sector led growth.
(c) N/A (e) N/A
(d) N/A (f) N/A

8. FAA Sec. 601(b). Information and conclusions 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 enterprise).

All equipment, commodities and services funded under Project will be ti[ed] to U.S. source & origin.

9. FAA Secs. 612(b), 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. N/A

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? N/A

11. FY 1990 Appropriations 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? No.

12. FY 1990 Appropriations Act Sec. 547. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No.

13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other

(a) N/A
(b) N/A
(c) N/A

wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

(d) Initial Environmental Examinations (and possibly Environmental Assessments) will be undertaken for all capital infrastructure activities to determine and, if appropriate, mitigate damage to any protected area, marine life or plants.

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A

15. FY 1990 Appropriations Act, Title II, under heading "Agency for International Development." If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

16. FY 1990 Appropriations Act Sec. 537. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

17. FY 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Yes, it will be.

19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?

The GOP uses metric measurements for infrastructure development and its use causes no significant detriment to U.S. firms.

20. FY 1990 Appropriations Act, Title II, under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Improved capital infrastructure will benefit men and women equally.

21. FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N/A

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Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

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B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1990 Appropriations Act Sec. 546 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

b. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

c. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The GOP specifically requested this project to meet its needs in capital infrastructure. The project provides credit guarantees that will enable both the government and the private sector to develop and build infrastructure furthering private sector led growth.

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d. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes. New and improved basic infrastructure will provide opportunities for private sector growth.

e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will: (1) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.

(1) Local government representatives have participated in the identification of the capital projects. Many of the proposed projects seek to improve the quality of basic services in the fields of telecommunications, transportation, and energy. These improvements should benefit the poor.

(2) N/A

(3) N/A

(4) The economic growth should provide more opportunities to women.

f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Does the project fit the criteria for the source of funds (functional account) being used?

N/A. Project is funded under heading of "Multilateral Assistance Initiative

g. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for

N/A

use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

h. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

No. Emphasis is placed on meeting major infrastructural needs. However, smaller projects may also be considered.

i. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Grantee will be required, however, to provide resources as needed to carry out Projects.

j. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

N/A

k. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

See B.1.(c) above.

l. FY 1990 Appropriations Act, under heading "Population, DA," and Sec. 535. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

N/A

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? N/A

Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? N/A

Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? N/A

In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? N/A

m. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes. Eximbank procedures will be followed.

n. FY 1990 Appropriations Act Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and N/A private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

o. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a

Yes. For all improvements, standard AID requirements for environmental assessments will be adhered to in efforts to minimize damage to natural resources.

An initial Initial Environmental Examination will be conducte: on all projects finance: with follow-up Environmental Assessments done on those activities impacting upon the environment.

(1)-(11) N/A

condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; and (11)/utilize the resources and abilities of all relevant U.S. government agencies?

p. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project: (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (2)/take full account of the environmental impacts of the proposed activities on biological diversity?

Yes

q. FAA Sec. 118(c)(14). Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

(1) No
(2) No

r. FAA Sec. 118(c)(15). Will assistance be used for: (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (3) the

(1) No
(2) No
(3) No

colonization of forest lands; or (4) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

(4) No

s. FY 1990 Appropriations Act Sec. 534(a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

t. FY 1990 Appropriations Act Sec. 534(b). If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources?

Power may be funded under Facility. Exim bank and AID will review to see whether technology is appropriate.

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced

(1) AID technical persons will gain additional experience through their thorough review of potential energy projects.
(2) All proposals will be evaluated on their likely environmental impact.
(3) Proposals with minimal reliance on fossil fuels will be looked at closely.
(4) See t.(2).
(5) Projects will use latest US technology
(6) Geo-thermal energy has very good potential.
(7) Energy projects may undertaken in rural areas having little energy.

B14

biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

(8) if projects are deemed feasible, such meeting will take place.
(9) all commodities, contracts, TA will be tied to U.S. firms exclusively.
(10) N/A.

u. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA" (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it: (1) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (4) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take

N/A

B15

into account, in assisted policy reforms, the need to protect vulnerable groups; (5) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

v. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing, and watershed management. — N/A

w. FY 1990 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? — N/A

C

ANNEX C

LOGICAL FRAMEWORK

LOGFRAME INPUTS-PCIS

- Project Title: Philippine Capital Infrastructure Support Project (492-0458)

- Life of Project: From FY 1990 to FY 1992

- Total U.S. (AID) Funding: $85 million

- Date Prepared: Sept. 12, 1990

NARRATIVE SUMMARY

A-1 Program or Sector Goal

Further broad-based sustainable economic growth led by the private sector.

B-1 Project Purpose

Mobilize public and private sector resources to meet priority infrastructure needs, the lack of which constrains general economic growth.

C-1 Project Outputs

One or more U.S.-sourced capital infrastructure projects that will enhance private-sector led growth.

D-1 Project Inputs

AID: Grant funds for technical assistance and the Concessional Financing Facility.

Eximbank: Grant funds and loan guarantees.

C2

OBJECTIVELY VERIFIABLE INDICATORS

A-2 Measures of Goal Attainment

As infrastructure is built, economic growth should develop in the areas benefiting from the projects.

B-2 End-of-Project Status

Establishment of necessary capital infrastructure leads to an environment encouraging business expansion and employment generation.

C-2 Magnitude of Outputs

Infrastructure projects built in critically needed areas (e.g. transportation, power, and telecommunications).

D-2 Implementation Target

	($ million)
AID:	
Grants	85
Eximbank:	
Grants and Loan Guarantees	270
Total	355

C3

MEANS OF VERIFICATION

A-3

Final evaluation of project.

GOP economic reports

B-3

Project evaluations

C-3

Eximbank reports

project officer reports

D-3

eximbank loan officers' reports

C4

IMPORTANT ASSUMPTIONS

A-4 for goal

GOP and local governments continue policies favorable to private sector growth.

B-4 for purpose

conditions are favorable for investment

general political and economic stability.

C-4 for outputs

projects financed under credits program are feasible.

D-4 for inputs

sufficient interest in program

continuation of AID and Eximbank funding.

D

ANNEX D

PID APPROVAL CABLE

OUTGOING TELEGRAM

D1

AGENCY FOR INT'L DEV.
TELECOMMUNICATIONS CENTER

ORIGIN AID-00

ORIGIN OFFICE ANPD-01
INFO ANEA-02 ANDP-01 ANAA-01 SAST-01 PPPB-02 GC-01 PPEA-01
GCAN-02 FVA-01 ANTR-06 OFOA-02 PRE-06 STFN-02 STEN-01
FMAD-02 AMAD-01 ANPS-01 /030 A0 06/02462

INFO LOG-00 CIAE-00 EB-00 DODE-00 EAP-00 /003 R

DRAFTED BY: AID/ANE/PD/EA:JRNUSSBAUM:JRN
APPROVED BY: AID/DAA/ANE:PWHITE
AID/GC/ANE:HMORRIS (DRAFT) AID/PPC:BHANNON (DRAFT)
AID/ANE/PD:RMACHTRIEB (DRAFT) AID/ANE/DP/F:RNEHRICH (DRAFT)
AID/ANE/DP:PDAVIS (DRAFT) AID/GC/ANE:JSILVERSTONE (DRAFT)
AID/ANE/TR:BTURNER (DRAFT) AID/PFM/FM/A:JDOCHTER (DRAFT)
AID/ANE/PD/EA:EMORRIS (DRAFT)
AID/ANE/PD/ENV.MAUX (DRAFT)
AID/ANE/PD/ENG FBIEGANSKI (DRAFT)
------------------341642 060240Z /38

P 060236Z JUL 88
FM SECSTATE WASHDC
TO AMEMBASSY MANILA PRIORITY

UNCLAS STATE 219175

AIDAC

E.O. 12356: N/A
TAGS
SUBJECT: PHILIPPINE CAPITAL INFRASTRUCTURE SUPPORT
PROJECT (492-0455) GUIDANCE FOR PROJECT PAPER

1. SUMMARY. THE MISSION AND DESIGN TEAM NOW ASSEMBLING IN MANILA SHOULD PROCEED DIRECTLY TO A PROJECT PAPER (PP) FOR THE PHILIPPINE CAPITAL INFRASTRUCTURE SUPPORT PROJECT (PCIS). PROJECT DESIGN IN DRAFT DOCUMENTS, MISSION COMMENTS AND DISCUSSIONS WITH THE DESIGN TEAM ARE SUFFICIENTLY ADVANCED TO OMIT A FORMAL PROJECT IDENTIFICATION DOCUMENT (PID) TO EXPEDITE FINAL DESIGN

AS A PROJECT LIKELY TO PRESENT POLICY CONCERNS, WE ASK THAT THE PP BE SUBMITTED FOR AID/W APPROVAL BY THE END OF JULY FOR AUGUST OBLIGATION. OUR VIEWS ON APPROPRIATE APPROACH TO PP DESIGN FOLLOW BELOW, BUT WE WOULD APPRECIATE YOUR OWN VIEWS ON THIS APPROACH. END SUMMARY.

2. PROJECT CONCEPT. WE SEE PCIS AS AN AID PROJECT TO TAKE DEVELOPMENT ADVANTAGE OF THE RECENTLY ANNOUNCED JOINT FACILITY WITH THE EXPORT IMPORT BANK FOR INCREASED FINANCING OF U.S. EXPORTS MEETING CAPITAL PROJECT NEEDS

OF FOUR COUNTRIES INCLUDING THE PHILIPPINES. THIS IS A TENTATIVE PROJECT OUTLINE AS WE SEE IT:

- A. THE PCIS PURPOSE IS TO ATTRACT ADDITIONAL EX-IM AND U.S. PRIVATE RESOURCES TO MEET URGENT INFRASTRUCTURE NEEDS OF THE PHILIPPINES FOR PRIVATE SECTOR GROWTH. PCIS WILL PROVIDE GRANT FUNDING TO BLEND WITH EX-IM GRANT AND GUARANTY FACILITIES AND PRIVATE CAPITAL. THE PLANNED 30 MILLION DOLLARS OF AID FY 1988 SAI GRANT FUNDS AND FIVE MILLION OF EX-IM GRANT FUNDS FROM THE WAR CHEST WILL MOBILIZE ABOUT 125 MILLION TOTAL FUNDING.

- B. WE EXPECT PCIS TO MEET PRIMARILY TELECOMMUNICATIONS OR POWER NEEDS, BUT SUITABLE CONSTRUCTION EQUIPMENT OR TRANSPORT PROPOSALS COULD ALSO BE CONSIDERED. PCIS SHOULD SUPPORT ONE OR A FEW REASONABLY LARGE CAPITAL INFRASTRUCTURE REQUIREMENTS RATHER THAN A NUMBER OF SMALLER SUBPROJECTS: THIS

SHOULD ENABLE US TO HAVE GREATER IMPACT AND AVOID EXCESSIVE MANAGEMENT BURDENS. A MINIMUM SUBPROJECT MIGHT BE FIVE OR TEN MILLION OF AID GRANT FUNDS IN A 25,30 MILLION DOLLAR SUBPROJECT, WE WOULD WELCOME CONCENTRATING ON A SINGLE VERY LARGE REQUIREMENT.

- C. WE ANTICIPATE THAT THE AID PROJECT FUNDS BE OBLIGATED BY PROJECT AGREEMENT WITH THE GOP SETTING FORTH THE GENERAL SUBPROJECT CRITERIA ACCEPTABLE TO BOTH USAID AND THE GOP. AID CRITERIA WILL INCLUDE INITIAL ENVIRONMENTAL EXAMINATIONS (IEE'S) AND REGULATION 16 ENVIRONMENTA RULES. WE CONTEMPLATE USAID USE OF A STANDARD HANDBOOK 3 PROJECT AGREEMENT, BUT WOULD LIKE YOUR COMMENTS ON THIS APPROACH AND ANY SPECIAL TAILORING YOU BELIEVE NECESSARY. IMPLEMENTATION LETTERS WILL SPELL OUT FURTHER CRITERIA AND APPROVAL PROCEDURES AS SUBPROJECTS ARE DEVELOPED.

- D. THE PROJECT AGREEMENT WILL PROVIDE THAT AID FUNDS WILL BE TRANSFERRED TO EX-IM FOR BLENDING WITH EX-IM GRANT FUNDS AND GUARANTEES. A CONDITION PRECEDENT WILL BE CONCLUSION OF A MASTER AGREEMENT BETWEEN EX-IM AND THE GOP COVERING ITS CONDITIONS FOR AUTHORIZING THE COMBINED AID-EX-IM FACILITY. AID WILL SEPARATELY ENTER AN AGREEMENT WITH EX-IM FOR THE ADMINISTRATION OF THE FUNDS TRANSFERRED.

- E. BOTH PRIVATE SECTOR AND PUBLIC SECTOR SUBPROJECTS CAN BE CONSIDERED. IF NEEDS IN THE PUBLIC SECTOR ARE TO BE ADDRESSED, THEY SHOULD BE MET WHERE

POSSIBLE THROUGH THE MAXIMUM USE OF PRIVATE RESOURCES AND MANAGEMENT, INCLUDING BUILD-OPERATE-TRANSFER (B-O-T) OR SIMILAR MECHANISMS.

IN THE EVENT THE GOP RELENDS AID GRANT FUNDS TO A PRIVATE SUBPROJECT, REPAYMENTS TO THE GOP NEED NOT BE TRACKED BY THE MISSION. THE AID PURPOSE WILL HAVE BEEN COMPLETELY CARRIED OUT BY THE INITIAL TRANSACTION

- F. THE NATURE OF THE SUBPROJECTS WILL DETERMINE APPROPRIATE MEANS OF ASSURING REASONABLENESS OF COST. WHERE THE GOP HAS PROVIDED FOR COMPETITION, THIS MAY BE SUFFICIENT. EX-IM CAN MAKE SIMILAR FINANCING AVAILABLE TO A NUMBER OF U.S. FIRMS IN SUCH COMPETITIONS.

HOWEVER, NEGOTIATED PROCUREMENTS OR PRIVATE PROPOSALS MAY HAVE TO BE REVIEWED FOR COST OR OTHER ASPECTS. THE PROJECT SHOULD PROVIDE AID FUNDS FOR QUICK (30-DAY TURNAROUND) CONSULTANT REVIEWS OF PROPOSALS, POSSIBLY BY LOCALLY AVAILABLE EXPERTS.

- G. ONCE SUBPROJECT PROPOSALS ARE PRESENTED TO EX-IM, EX-IM WILL REVIEW, AUTHORIZE AND ADMINISTER THEM IN ACCORDANCE WITH AGREED UPON PROCEDURES AND RULES, AID'S AGREEMENT TO TRANSFER PROJECT FUNDS, AND THE MASTER AGREEMENT WITH THE GOP. USAID WILL HAVE MINIMAL INVOLVEMENT IN NORMAL SUBPROJECT OPERATIONS. OF COURSE, THE MISSION SHOULD FOLLOW SUBPROJECTS' GENERAL PROGRESS, AND EX-IM MIGHT CALL UPON THE MISSION FOR ASSISTANCE IN THE EVENT OF PROBLEMS.

3. ISSUES. THE ABOVE APPROACH SHOULD COVER MANY OF THE ISSUES RAISED BY THE MISSION'S JUNE 28 FAX MEMORANDUM, AND THE DESIGN TEAM CAN DEAL WITH OTHERS. BELOW ARE SOME RESPONSES TO POINTS RAISED IN THE FAX MEMO

- A. OUR REVIEW OF A POSSIBLE ADVANCE OF FUNDS TO THE GOP UNDER THE PCIS INDICATED THAT THIS IS NOT POSSIBLE UNDER CASH MANAGEMENT RULES.

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OUTGOING
TELEGRAM

AGENCY FOR INT'L DEV.
TELECOMMUNICATIONS CENTER

D2

- B. PROCUREMENT RULES FOR THE COMBINED ACTIVITY WILL BE THOSE OF THE IMPLEMENTING AGENCY, EX-IM, ALONG WITH ANY RULES AID CONSIDERS NECESSARY BASED ON HANDBOOK 11 REVIEW. EXCEPT FOR THE IEE AND REG 16 REQ. REMENT FOR ENVIRONMENTAL REASONS, WE ARE NOT AWARE ON A PRELIMINARY REVIEW OF ANY AID INTEREST (U.S. CONTENT, U.S. SHIPPING, ETC.) THAT IS NOT MET BY EX-IM PROCEDURES. HOWEVER, WE WOULD APPREIATE YOUR REVIEW AND ADVICE IF YOU SEE ANY

OTHER REQUIREMENT WE SHOULD ADD TO EX-IM RULES.

- C. GEOGRAPHIC CONCENTRATION IN AN AREA OF AID INTEREST (E.G., GENERAL SANTOS CITY) WOULD BE A GOOD WAY TO INCREASE IMPACT OF OUR ASSISTANCE, BUT WE DO NOT WANT TO IMPOSE IT AS A RESTRICTION. WHILE THIS IS A GOOD PLACE TO START SEEKING POTENTIAL SUBPROJECTS, BUT SHOULD NOT DELAY FINDING SUITABLE USES FOR PCIS FUNDS.

D. THE DEGREE TO WHICH CONCESSIONALITY OF PCIS FINANCING PACKAGES WOULD PASS TO PRIVATE OWNERS WOULD DEPEND ON THE NATURE OF THE ACTIVITY AND THE PRIORITY ASSIGNED BY THE GOP. FOR EXAMPLE, WE MIGHT ACCORD RURAL TELEPHONE SERVICE MORE CONCESSIONAL TERMS THAN THE PLDT CASE CITED IN THE FAX MEMO.

4. FURTHER ISSUES. AS THE MISSION AND DESIGN TEAM ENTER DISCUSSIONS WITH THE GOP, QUESTIONS ON THE ABOVE AND ON OTHER ISSUES MAY ARISE. LET US KNOW OF ANY ASSISTANCE YOU WANT BY CABLE OR INFORMALLY. WE UNDERSTAND THE NEED FOR PROMPT RESPONSES IN ORDER TO MEET THE TIGHT SCHEDULE FOR OBLIGATION. EAGLEBURGER

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E

ANNEX E

GRAY AMENDMENT CERTIFICATION

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E1

CERTIFICATION PURSUANT TO UTILIZATION OF GRAY AMENDMENT ORGANIZATION

I, Malcolm Butler, principal officer of the Agency for International Development in the Philippines, have fully considered the potential involvement of small and/or economically and socially disadvantaged enterprises, and do hereby certify that U.S. technical assistance required under the project will be provided through open competition, with special consideration given to firms submitting proposals which utilize the resources of small and/or disadvantaged firms. In addition, for project evaluation, efforts will be made to award contracts to small and/or disadvantaged firms. My judgment is based on the recommendations of the Project and Mission Review Committees.

Malcolm Butler

Malcolm Butler
Director, USAID Philippines

NOV 9 1990

Date

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F

ANNEX F

IEE CERTIFICATION

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F1

INITIAL ENVIRONMENTAL EXAMINATION

A. COUNTRY: Republic of the Philippines

B. ACTIVITY: [redacted]

C. TOTAL A.I.D. FUNDING: $85 million

D. LIFE OF PROJECT: FY1990 - FY1995

E. STATEMENT PREPARED BY: ______________________
S. an Alexander
ANE/PD/ENV

F. ENVIRONMENTAL ACTION RECOMMENDED: A.I.D environmental procedures (22 CFR 216) will be applied to assure environmental soundness. This will require preparation of an Initial Environmental Examination (IEE) for each proposed sub-project, and an Environmental Assessment (EA) as required.

G. ENVIRONMENTAL OFFICER'S CLEARANCE: ______________________
Kevin A. Rushing
Office of Rural and Agricultural Development
USAID/Philippines

H. USAID/PHILIPPINES DIRECTOR'S DECISION:
APPROVED: ______________________
DISAPPROVED: ______________________
8-7-90

I. ANE ENVIRONMENTAL OFFICER'S DECISION:
APPROVED: ______________________
DISAPPROVED: ______________________
DATE: 8-6-90

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F2

I. Project Description

The Philippine Capital Infrastructure Support (PCIS) project seeks to mobilize public and private resources to meet priority infrastructure needs which presently constrain broad-based private sector-led growth. The PCIS strategy contains three components:

1. Leverage MAI resources to the maximum extent possible by raising additional resources for infrastructure from the U.S. Export-Import Bank (Exim) and other U.S. Government programs, the commercial banking sector, and other private sector sources. In conjunction with AID's contribution, Exim will provide an agreed level of grant funds from its 'war chest.' Exim will also provide long term credit guarantees to encourage U.S. banks to make loans for U.S. exports needed for infrastructure projects in the Philippines.

2. Use the most efficient means to manage the PCIS, while assuring that PCIS-financed activities are properly selected, monitored and evaluated. Although AID funds will be obligated with the GOP, all funding (AID, Exim and guarantees for commercial credits) will be managed by Exim due to its comparatively greater experience and capability to manage trade credits. AID's development capabilities and presence in the Philippines provide the comparative and competitive technology advantages for AID to efficiently screen activities for development merit and to manage the monitoring and evaluation components of the PCIS. AID Environmental Procedures (22 CFR 216) will be applied to assure environmental soundness. This will require preparation of an Initial Environmental Examination (IEE) for each proposed sub-project, and an Environmental Assessment (EA) as required. By structuring management along these lines, the credits should be as accessible as possible while minimizing AID's administrative burden.

3. Screen for development impact and policy considerations during project selection to assure that PCIS resources have a development impact and are not used contrary to MAI and AID policy objectives. Specific development criteria have been developed to screen each PCIS project activity.

II. Environmental Screening

In order to determine the likelihood of significant environmental impacts, the Project Manager will prepare an Initial Environmental Examination (IEE) for each subproject activity. The objective of each IEE is to decide if a more detailed Environmental Assessment (EA) is needed. The Project Officer in cooperation with the Mission Environmental Officer will prepare the IEEs, together with other Mission staff and consultants as needed and available, using existing data, i.e., maps and engineering reports, and may include site-specific investigations. This section describes the procedures for conducting both an IEE and a detailed Environmental Assessment (EA).

1. Initial Environmental Examination: The Project Officer will prepare an IEE for only one specific sub-activity. In identifying and evaluating potential impacts, the IEE will consider four aspects of an environmental impact: externalities/secondary impacts, magnitude, exposure and irreversibility.

-- External/Secondary Impacts

While an individual proposed action may affect a limited land area, offsite impacts may cause substantial harm. The cumulative importance of secondary impacts may often be greater in the long run than that of the direct impacts. F3

-- Magnitude

The amount of change occurring within any given impact type. A large amount of change is likely to increase the severity of an impact on people, communities and the bio-physical environment (air, water, soil, flora and fauna).

-- Exposure

Impact exposure includes: timing of occurrence (the number of times an impact occurs and its duration); geographic area exposed (whether the location of impact is either a confined area close to the source or a large area beyond the source); number of receptors (number of people and organisms affected by the impact); and sensitivity of the receptors (the degree to which persons or organisms experience the impact).

-- Irreversibility

The probability that the impact will be permanent. Impacts that are naturally short-lived and those which can be mitigated or reversed through human action may be judged less important than those that are irreversible.

Using the above framework for evaluating potential impacts, the appraisal will look at various biophysical, social and cultural aspects.

a. Terrestrial Ecosystem

Following are some key questions for assessing the potential impact(s) on terrestrial resources:

-- Are important terrestrial organisms found in areas near the proposed activity?

-- Will the activity affect elements of organisms' life-support system such as site vegetation, wildlife habitat, air and water quality, and food chains and webs?

-- Are unusual populations of plants or animals, areas containing rare or endangered species, unusual vegetative beauty, unusual species diversity or productivity found near areas of the proposed activity?

b. Aquatic Ecosystem

Following are some key questions for assessing the potential impact(s) on aquatic resources:

-- Will streams or ponds be affected by construction or operation of the proposed activity?

F4

-- Will the activity be located near aquifers?

-- Are water bodies which exhibit good water quality or contain unusually high species diversity or density found near the location of the proposed activity?

-- Are important or protected aquatic organisms found near the proposed activity?

-- Will the activity affect elements of the organisms' habitat such as water quality, channel form, site requirements or food chains and webs?

-- Are wetlands found near the location of the proposed activity?

c. Atmospheric Systems

-- Are important avian and/or other animal species found in areas near the proposed activity?

-- Will the activity affect these organisms' habitat or food sources?

-- Will the activity affect air quality, inlcuding noise levels?

d. A Social Soundness Analysis will address the following:

1) Human Communities

Following are some key questions for assessing the potential impact(s) on human communities:

-- Do identifiable communities exist within the project area?

-- Will the proposed activity intersect or bypass these communities?

-- Will the activity affect the stability of a community by displacing or disrupting important segments of the residential or business community or by isolating segments of a community?

-- Will the activity alter levels of community cohesion through either the physical or psychological separation of residents or activities?

-- Will the construction process itself affect community quality due to the presence of construction equipment, increased air and noise pollution, the need for vehicular and pedestrian detours or other disruptive features?

-- What identifiable groups (ethnic, age, income, etc.) will be adversely affected by the activity?

2) Accessibility of Facilities and Services

Following are some key questions for assessing the potential impact(s) on accessibility of facilities and services:

-- Will the proposed activity displace or alter the character (through proximity effects such as noise) of any major facilities or services?

-- Will regional access by ... and services in the project area be enhanced or hindered by the proposed activity?

F5

-- Will any local groups or individuals experience a loss or reduction of pedestrian, vehicular or boat access to community facilities and services as a result of the activity?

-- Where access to facilities and services is diminished, are alternative facilities and services of comparable quality accessible to those persons who need or use them?

-- Will accessibility to public services, such as medical, police and fire protection, be reduced in any part of the project area?

-- Will improved accessibility to certain areas affect the land value and usage level of existing facilities and services?

3) Employment, Income and Business Activity

Following are some key questions for assessing the potential impact(s) on employment, income and business activity:

-- What business activities will be displaced?

-- What business activities will benefit from the increased accessiblity the activity provides?

-- What business activities will suffer losses in sales or income as a result of losses in accessibility, both during and after construction?

-- What business activities will suffer losses in sales or income as a result of negative proximity effects such as air, noise and water pollution, both during and after construction?

-- What business activities will benefit--as measured in increased income and employment--from the stimulus of construction expenditures for labor and materials?

4) Displacement of People

Following are some key questions for assessing the potential impact(s) if people are displaced:

-- What is the probable magnitude of the displacement associated with the activity?

-- Analyzing the socioeconomic characteristics of the study area population, can special relocation problems or needs be anticipated? Particular attention should be given to minority groups.

-- Have provisions been made to carry out a program of special relocation advisory services for households with special needs or problems?

-- Is replacement housing matching the needs of displaced households currently available in either the same or nearby neighborhoods?

F6

-- If adequate replacement housing is currently not available, are housing sites and money available to construct replacement housing?

III. Detailed Environmental Assessment

If the appraisal determines that important environmental and social impacts are likely, then the Project will obtain [possibly through an Indefinite Quantity Contract (IQC) or other mechanism] the services of a firm with environmental analysis capabilities to conduct a detailed environmental analysis following the guidance contained in 22 CFR 216.

The detailed environmental analysis will produce sufficient information on the potential impacts to enable Mission management to: 1) modify the design, minimizing serious impacts, or 2) reject the proposed activity.

G

ANNEX G

DESCRIPTIONS OF CANDIDATE PROJECTS

G1

Annex G

<u>Description of Illustrative Projects</u>

<u>for Financing under PCIS</u>

Power:	Leyte Geothermal Mindanao Hydro Power Interconnection Project Bataan Combined Cycle
Telecom:	Municipal Telephone Fibre Optic Trunk Line
Construction/ Transport:	Bulk Grain Transfer EDSA Streetcar Construction/Transport Leasing
Environment:	Solid Waste Management for Manila

G2

Candidate Projects for PCIS Financing

Sector and	Project Status	Purpose	Output Financial Data	
Power	1. Tongonan Geothermal, (Leyte)	Link Leyte Geothermal fields to Luzon grid using BOT approach	440 MW for $1.1 billion Possible US components: Power plant for $420 million	IBRD/Mitsui/Design Power (N.Z.)developing project and have expressed interest in U.S. participation. Scheduled for 1995 completion.
	2. Power Interconnect	Connect Mindanao, Leyte and Luzon with submarine cable	1040 km of cable costing up to $850 million potentially all U.S.	Detailed design underway. Completion sched for 1995.
	3. Small Hydro for Mindanao	Develop small hydro potential for Mindanao grid using BOT approach.	15 subprojects producing 278 mw for $325 Possible US component: $150 million	Feasibility studies being done. First projects scheduled to be completed in 1995.
	4. Bataan Combined Cycle	Rapid addition to the power grid - Possible BOT	300 MW for $87 million Possible U.S. Component: $57 million	Tenders being prepared. Award expected in December 1990. U.S. components (turbines and generators) expected to be shipped at the end of 1991 if the bid is won.
	5. Meralco Rockwell Plant Rehab	Rehab and relocate Meralco's Rockwell Plant	300 MW rehab planned, with substantial U.S. componentry.	Feasibility study expected to be complete in September 1990.

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6. U.S. Salt River plant for Meralco	Purchase semi complete facility in U.S.	400MW power plant for $50 million equipment cost.	Plant is immediately available for completion but in country work (site, studies, civilwork) not yet begun.
7. Bataan Oil Fired Generation	BOT for Luzon Grid	300 MW	Interested U.S. firm negotiating with NPC
8. Pinatubo Geothermal	Increase geothermal input to Luzon grid	120MW for $131 million Possible US Component: $107 million	BOT proposals being made.

Transport/Construction

1. EDSA Streetcar	BOT Construction and operation of Light Rail Transit along EDSA	13 km. for $150 million Possible US Component: $70 million	Inception study completed but still need feasibilility study. Dec. 1991 planned to be operational.
2. Bulk Grain Facility	Storage and transfer facility for imported grain in Manila	One facility for $20 million Possible U.S. component $10 million	Under consideration (TDP study complete)
3. Construction/ Transport Leasing Pool	BOO source of equipment for operations	Four pools for $40 million Possible U.S. component: $30 million	U.S. supplier has expressed interest. Could be done by end of 1991

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Telecommunications

1. Fiber-Optic Trunk Lines	Link major island groups by fiber	$1 billion program of which AT&T is bidding for $60 million	Bids may be awarded by the end of September 1990.
2. Municipal Telephone	Install and operate public phones in each municipality	1000 municipalities for $100 million <u>Possible US component</u> $80 million	Studies underway. All systems planned to be installed within 2 years.

Environment

Metro Manila Solid Waste Mgt.	To improve management of solid waste in Manila	Equipment and land fill development for $185 million <u>Possible US Component</u> $105 million	Feasibility study complete and waiting for financing

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LEYTE GEOTHERMAL BOT PROJECT
(Tongenan)

Description:

Design Power of New Zealand, the engineering consultancy subsidiary of the Electricity Corporation of New Zealand, is pursuing the BOT development of the Leyte geothermal power plant project in conjunction with Mitsui and Company of Japan. The project consists of the geothermal resource development, the 440 MW power plant and the Leyte-Luzon HVDC transmission line.

Rationale

The Leyte geothermal resource can be an important non-polluting addition to the Philippine power grid.

Financial Aspects

Total cost of the project is estimated to be $420 million. The World Bank is providing the $30 million for the geothermal resource development and power line, and the National Power Corporation will internally finance $100 million in local costs. The remaining sum of $290 million will be from suppliers credits, cofinancing, and the BOT contribution. The power plant of $337 base and $83 million contingencies would be suitable for financing under this project and does not have firm financing net.

Status

Design Power has expressed interest in financing under the project. Fieldwork for the World Bank appraisal was done in June, 1990. NPC approval for the BOT is expected in mid 1991. Completion is expected by 1995.

Issues

-Still questionable whether project will be BOT or conventional

-The transmission line is on the critical parts and must be started soon if completion date is to be met.

-Timing will not permit financing under this project's first plan's funding.

SMALL HYDRO FOR MINDANAO GRID

1. Description.

The National Power Corporation (NPC or NAPOCOR) is promoting the development of BOT and private owned generation stations. However, they have found that the private sector is reluctant to spend the money necessary to carry out field investigations, pre- feasibility and final feasibility studies without some assurance that the projects are viable and will have the NPC approval when completed. To alleviate some of these costs and concerns, the Projects Development Division of NPC completed a small hydroelectric projects pre-feasibility study in 1989. This study concentrated on Mindanao and identified 31 potential subprojects. Figure 3.1 shows the location of these projects. Table 3.2 lists the projects and gives an estimate of the optimum total generation capacities of each. The main purpose of the pre-feasibility study was to identify hydropower potentials, screen and prioritize them, so as to provide a basis for the conduct of individual feasibility and design studies for eventual implementation. Full feasibility studies will be conducted this year using IBRD funds. Based upon study results for 12 to 15 of the more promising sites, it is hoped that the private sector will offer proposals for development of BOT projects. Several of these projects offer excellent opportunities to the U.S. private sector.

2. Rationale Development of the General Santos City area is of special interest to the AID program in the Philippines. The Philippines Assistance Strategy Statement (PASS) of March 1990 identifies five specific program objectives for the period 1991- 1995. One of these objectives is the development of infrastructure that facilitates expanded private sector activities. At the July 1989 Donor Consultative Group meeting, the GOP presented a plan for channeling funds to special development areas. General Santos City/South Cotabato province in Mindanao is one of those area. In furtherance of this objective, AID is developing a separate Mindanao Development Project to accelerate the agro-industrial development of the region by encouraging the inflow of private investments. In support of these other efforts, power generation and transmission projects financed under Mixed Credits has particular interest to AID.

3. Financial Aspects. The estimated cost of power developed is in the range of $800 to 1150 per kilowatt (Kw). The initial list of 12 to 15 projects should produce up to 278 MW (megawatts) of power at a cost of between $225 to $325 million. The individual sizes of these small hydropower projects vary from a minimum of 5 MW ($5 million) to a maximum of 50 MW (or $50 to $60 million). It is expected that one third to one half of this investment would be in Foreign Exchange.

4. Implementation Status. The pre-feasibility study has been completed and the IBRD will finance the full feasibility studies. The first of these feasibility studies should be available to prospective investors by mid-1991. NPC plans to have the first group of projects connected to the

gird by 1995. This appears to be optimistic considering the need to identify investors, for them to conduct their own technical and financial reviews, design and then construct. In any event, the timing is within the broad framework of this Mixed Credits project.

5. Issues / Observations. President Aquino issued Executive Order 215 in July 1987 legalizing private power generation and the NPC was mandated to issue private power guidelines and rate structures. While private power is attractive in concept and is badly needed by NPC, international experience in its implementation is very limited. One of the most serious constraints for moving ahead with private investments in small scale power plants is the lack of NPC implementing this Executive Order. The guidelines have not been issued and rate structures have not been issued. Also, there needs to be active promotion of BOT projects, especially in Mindanao. At the present time, many potential private sector investors are adopting a wait-and-see attitude. Also they may be unaware that NPC is preparing in general, feasibility studies for these Mindanao small hydroelectric projects.

INTERCONNECTION PROJECT

1. Description. Interconnection of the transmission gird throughout the Philippines is one of the primary goals of NPC. Two major parts of this effort is the construction of a submarine cable between the islands Mindanao and Leyte and a second one between Luzon, Samar and Leyte. In addition to the High Voltage Direct Current submarine cables, this project would include the backbone overhead line. Figures 3.3 and 3.4 show the location of these two projects.

2. Rationale. An essential part of meeting the demands in Luzon is the ability to balance the power generation and transmission throughout all of the islands. There is a great potential for geothermal development in the Visayas (Tongonan). The same is true for development of both hydro and geothermal power on the island of Mindanao. A backbone transmission line connecting all of the major islands together is key to operating a country-wide distribution system. The Luzon-Visayas-Mindanao transmission line should be the first step in this interconnection.

3. Financial Aspects. The Luzon-Visayas Interconnection is for approximately 750 Km of overhead 138 kva line and a 22 km HVDC submarine cable. The estimated cost for this linkage is between $400 - $500 million. The Visayas-Mindanao Interconnection is for 290 km of overhead 138 kva line and a 49 km HVDC submarine cable. The estimated cost for the Mindanao link is between $250 - 350 million.

4. Implementation Status. This appears to be of high priority to the NPC. It is anticipated that they will solicit design- construct-finance proposals in the near future. NPC's planned completion date is 1995. Again an optimistic schedule but one which can be met.

5. Issues / Observations. This is a project where U.S. technology is in the forefront and offers excellent opportunities — both with sales of U.S. equipment and materials, but more important for its high technical visibility.

BATAAN 300MW COMBINED CYCLE POWER PLANT

Description:

The proposed project is the procurement and installation of power generation equipment of about 300 megawatts in the combined cycle mode in Bataan for the National Power Corporation (NPC). General Electric's Power Generation Operations intends to bid in conjunction with John Brown Engineering (JBE) of Scotland and Mitsui of Japan. GE would supply three model MS7000 gas turbines with generators and one 75 megawatt steam turbine and generator. Expected competition, which will most likely offer government sponsored financial assistance, are the following:

- ASEA Brown Boveri	Switzerland
- Alsthom	France
- KWU-Siemens	West Germany
- Mitsubishi	Japan

Rationale:

Provision of power for the Metro Manila area is a top priority in view of current and projected shortages due to increased industrial and commercial demand. To continue to attract new investment and maintain a national growth rate of 6 percent per year, additional power sources are needed. The proposed project, as a turnkey operation, can become operational near the end of CY'92.

Financial Aspect:

The estimated project cost is some $87 million (see June 1990 letter from GE to EXIM). General Electric estimates that its share will be about $57 million. GE has been advised that 100 percent financing will be a criterion for the bid to be acceptable. Each of the consortium members are responsible for securing mixed credit financing from their respective governments. Four other consortiums are expected to compete.

Implementation Status:

The tender documents are under preparation and are due to be published within a 30-60 day period. (In this regard a letter of 21 June '90 from E.M. Aboitiz, President of NPC, has been received by USAID requesting technical assistance in the review of the tender documents and in the evaluation of the proposals that will be received by NPC.) NPC has not yet announced the specific site location for the Project except to indicate that it will be on Bataan. The split of the scope of work between JBE and Mitsui is currently under review as is the contractual relationship among the three parties.

GE estimates the following implementation schedule:

- call for tenders	July/August '90
- bids required	September/October '90
- contract award	November/December '90
- shipments	September/December '91
- installation	December '91-August '92

Issues/Observations:

1. A positive response to NPC's request for technical assistance in review of the tender documents and in evaluation of the proposals can give an edge to U.S. suppliers. It has worked to the disadvantage of U.S. suppliers when such assistance has been provided by our bilateral donor competitors.

2. GE has pointed out that in its turbine and generator sourcing program, it purchases several components from foreign vendors which are incorporated into finished products in the United States. Such components consist of forgings and castings which are purchased in a "rough machined" state and are "finished-machined" at U.S. facilities prior to incorporation into the final product. The total value of these foreign sourced parts is not expected to exceed 10 percent of the value of the finished products.

FIBER OPTIC TRUNK TELECOMMUNICATIONS LINES FOR PLDT

Description

Installation of major long distance, undersea fiber optic lines by AT&T for PLDT. This will be part of a much larger investment program (X5C) valued at nearly $ 1 billion for which tenders are currently under adjudication. AT&T made a separate bid under this program but only for a trunk cable and there is doubt whether this can be considered by PLDT except perhaps if AT&T could associate itself as subcontractor to one of the other bidders. There may be similar investment programs in the future; also several other trunk lines are under discussion including a connection to Malaysia.

Rationale

The trunk lines will improve connection among major economic centers in the country and provide an incentive for development of less developed regions. Also, as poverty is concentrated in the areas underprovided with telecommunications, the project would have more than average impact on poverty alleviation.

Financial Aspects

Other than the $60 million for AT&T's portion of X5C, no information is available on aggregate amounts required by PLDT, there are conflicting reports whether these installations could be provided to PLDT independently on a BOT or BOO basis; some people claim this cannot be done because of franchising issues (PLDT and 7 private telex operators are eager to protect their positions under their franchises); PLDT says they would be willing to consider a joint venture. In addition to AT&T, ALCATEL (in behalf of its U.S. operation) is another possible U.S. supplier; AT&T may be in a position to offer its guarantee for the transaction. No information is available on which other countries may offer to supply these goods.

Implementation Status

The X5C proposal is slated for decision by end September. Timing on other items is not available

Issues

Is provision of fiber optic trunk services to PLDT on a BOT or BOO basis negotiable?

Is BOT basis acceptable to DOF?

Is there any scope for competitive trunk lines by parties other than PLDT (e.g. on routes where PLDT has capacity problems)?

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Is AT&T willing to offer a guarantee, of what kind and under what circumstances?

Will PLDT work in joint venture with a foreign supplier of equipment and services?

Bulk Grain Transfer Facility for Manila

Description

A facility to receive, store and transfer imported grain for flour mills along Pasig River in Manila. The facility would be owned partly (majority) by the local millers and partly (minority) by Cargill. The facility would be located across the bay from Manila and cost about $20 million.

Rationale

The facility falls under transportation component of the PCIS. A TDP study has established the need for such a facility. The facility would reduce transport costs substantially and help the long term supply of food to the Philippines. The proposed version of the facility would promote private sector participation in the economy with attendant benefits in reduced government expenditures.

Financial Aspects

The proposed by PPA on fill land in the area of the existing harbor would cost much more. The foreign exchange component is estimated roughly at not less than $10 million. Private sector money (equity and loan) could cover at least half of total costs and U.S. government support under PCIS would be not more than $5 - 10 million.

Implementation Status

Not known

Issues

1. Is competitive soft financing likely to be offered for the imported components?
2. Will PPA allow a private facility to be operated in competition with its services?

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EDSA STREETCAR PROJECT

Description

Construction and operation of streetcar operations on BOT basis in the medium strip of EDSA (the inner ring road of Manila) from Baclaran (near Manila Bay) to Cubao, a distance of about 13 km. (representing about 2/3 of EDSA's total length). The streetcar would run at grade, with overpasses providing passenger access. About half the cost of this project will be for 60 streetcars to be manufactured in Czechoslovakia by CKD-Tatra, with about 20 percent of the estimated $ 1 million costs per car to be represented by U.S. origin components. The streetcars would be paid under a counter trade arrangement. The other half of the project will go to U.S. equipment (e.g. signaling and the power plants) and U.S. services and for Philippine procurement, especially civil works. The facility is expected to carry about 300,000 passengers per day.

Rationale

This would constitute Line 3 of the mass transit corridors (Line 1 being the existing LRT, partly along Taft Ave. and Line 2 running in a SE direction, presently under procurement). The new streetcars would attract a significant part of the passenger trips on EDSA. The project would promote private sector operation of mass transit and would do so on a self financing basis. Streetcars would provide a non-polluting form of transportation and alleviate serious automotive pollution along EDSA. No formal feasibility study has been made.

Financial Aspects

The total estimated cost is about $ 160 million; no foreign exchange content has been provided but an estimate of at least $120 million seems reasonable. Financing is to be provided for the streetcars by the Czechs, for the U.S. equipment and services by the mixed credit and by other investors (including from IFC for which no confirmation of a contract has yet materialized) and for local costs by private investors. On the basis of current LRT fares, the project would not work. Accordingly, the owner, Philippine National Railway (PNR), would use its development rights at the stations (for air rights buildings over the road) to generate revenues to balance the accounts. The operator of the system would have no responsibility regarding the setting or collection of fares, however, but would merely to run the system in return for a fee.

Implementation Schedule

A letter was given by the Department of Transport and Communications (by Secretary Orbos who is reported to be very interested in this project) to the promoters whereby the promoters undertook to build the project provided all conditions were met in 60 days. It is not clear which side is pressuring for speed but the promoters indicate that if the conditions are met in 60 days they can have the project built by the end of 1991.

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Issues

Among numerous issues raised by this project are the following:

Exclusive Position of Promoters

The promoters claim they are the only contenders for this business and that they have chosen to buy American for political reasons. If this transaction is exclusively for U.S. suppliers (other than the Czech streetcars), should an offer of credit be made for U.S. purchases, which might be provided by my other consortium. Moreover, it has been suggested that at least one other group is in contention (a European group). What are the terms under which this other group is to be financed and how are those terms to be met?

Right of Way

Though much of the track's right of way is in the government's hands, important parcels of land for ancillary facilities, such as electric substations and car repair yards, are not. How and when will these parcels be acquired?

Air Right's Buildings

Is there a market for the air rights buildings and can they be erected without unacceptable traffic interruptions?

Economic Feasibility

The project will require more land than is available in some (most?) parts of the median strip. Will the project not result in reduced space for road traffic and is that acceptable from the economic in planning point of view? Moreover, can the project be built (certainly in the short time envisioned) without unacceptable interruption to road traffic?

Role of PNR

PNR will be the agency responsible for the project. It is reported to be a very inefficient organization. Could it provide the necessary support to make the project succeed?

CONSTRUCTION AND TRANSPORTATION EQUIPMENT RENTAL FACILITIES

Description

Establishment of leasing operations by privately owned companies to lease out, with operators, construction and transportation equipment and to maintain such equipment in their own facilities. Construction equipment would include such items as heavy trucks, bulldozers, loaders and graders as well as quarrying equipment. Transportation equipment would involve such heavy machines as forklifts and container cranes but not regular trucks and passenger vehicles. A leasing operations could also be envisioned for captive power generators. These leasing arrangements would differ from those under most existing leasing companies which typically rent used equipment and provide neither repair nor operators. Such an upgraded leasing arrangement is analogous to a Build Own Operate system.

Rationale

The major premise of this proposal is that the increased provision of infrastructure will require an expanded construction industry and that equipment leasing is the most efficient means of providing for the equipment needs of smaller contractors and even, to some extent, of larger contractors. Equipment leasing would also provide an improved means of supplying equipment to public works authorities who, in repeated past cycles of donor provision of equipment, failed to use it properly or to maintain it.

The latter rationale also would apply to an arrangement that avoids vesting cargo handling equipment in public sector cargo handling organizations, such as PPA, which in the past have been unable properly to maintain or operate such equipment. This proposal also avoids the public tender for equipment where U.S. suppliers in the past have fared badly because, on a pure initial price basis, they tend to be too high and because the procuring authorities have refused to evaluate bids on the basis of life cycle costing (value engineering) which would allow U.S. suppliers to compute better. In other words, the proposal would allow for effective competition in high quality equipment where some U.S. suppliers continue to have a long-term edge. The proposal has two further attractions:

(a) it promotes smaller Philippine businesses

(b) it avoids saddling the government with choosing among competing beneficiaries; the individual amounts required are large enough to have the program serve several competing firms on a first come, first served basis.

Recent reports show that increasingly lengthy terms are being granted through the Japanese trading companies and that U.S. exporters are experiencing competitive pressures as a result.

Financial Aspects

A detailed analysis (estimated to take not more than two weeks) will be needed to establish a financial plan for a typical operation. Each operation would require a capitalization of from $10 to 20 million including the cost of a stock of rental equipment, repair equipment, spares and working capital. The money for this could be raised partly in pesos on the domestic market, partly by the seller's of the equipment (one U.S. supplier has expressed a willingness to invest) and partly through the PCIS. If, say, four operations were to be established $40 million could be committed under PCIS. As the individual deals are relatively small, EXIM Bank may be able to base its commitment only on a commercial bank guarantee.

Implementation Status

The proposed operations are not complex and the amounts of money are relatively modest, the proposal thus is likely to be implemented quickly though not by the end of the current fiscal year.

Issues

A balanced inventory of construction equipment for lease may need to include items which are not made in the U.S. or in which U.S. producers are not competitive. Will this scheme, in order to work, require availability of such credit facilities from other exporting countries?

Can the GOP be persuaded to accept what appears to be more limited end use control under this proposal?

Will the GOP be willing to use up grant element on equipment with a useful life of from 5 to 10 years?

SOLID WASTE MANAGEMENT FOR METRO MANILA

Description - The proposed project is to undertake a series of measures to improve the solid waste management system for Metro Manila including storage, collection, transport, disposal, and resource recovery. The key technical elements recommended for improvement, pursuant to a TDP funded feasibility study for the Department of Public Works and Highways (DPWH), are the following:

1 - Storage

- increase the use of covered containers for waste storage;
- procure additional containers and matching collection vehicles for use in congested markets and residential areas that are difficult to access

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2 - Collection

- replace 12 cubic meter dump trucks with 15 cubic meter enclosed, compactor trucks as the primary collection fleet vehicles. Acquire larger compactor trucks for serving areas that can accommodate them.

3 - Transport

- Design and construct fine gravity type transfer stations with a capacity range of 800 to 1400 tons/day;

- Design the San Mateo landfill to handle an average of 2970 tons/day and a South sanitary landfill for 1980 tons/day over the next 15 years;

- Design and build all-weather access roads to sanitary landfills.

5 - Resource Recovery

- Provide a "sorting area" at each sanitary landfill;

- Provide for the collection, venting and ultimate use of landfill gas as part of the design. Possible on-site generation of electric power is probably the most beneficial use of the energy;

- Establish a small 55 ton/day pilot composting facility and study the extent of the market for compost product.

Rationale - As with many metropolitan areas that have large populations, in Metro Manila the management of solid waste has become a critical problem characterized by the following deficiencies:

- a portion of the waste is not routinely collected;
- enforcement of regulations on solid waste is inadequate;
- collection routing is inefficient;
- collection vehicle fleet is old and subject to breakdowns;
- access roads at dump sites are inadequate;
- environmental conditions of the disposal system contribute to health problems; and
- finance and auditing procedures are in need of revision.

By 1987, the solid waste problem was considered of such national significance that a Presidential Task Force (PTF) on waste management was created.

Financial Aspects - The recommended project will require a total capital investment over its life of $105 million in FX costs and 1,680 million in peso costs. If the study's revenue raising recommendations are implemented, the majority of these funds can be internally generated by

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the creation of a capital fund charged to operating revenues. The study recommends an initial capital outlay of $37.5 million in FX costs and 1,279 million pesos from 1989 to 1992. These amounts would have to be funded by a combination of multilateral or bilateral grants or low interest loans as well as local currency borrowings or contributions by the GOP. With regard to foreign equipment purchases, some $19 million is allocated for such during the first year of the program with an additional $23 million planned over the next five year period.

Implementation Status - The TDP financed feasibility study was completed in May, 1989 and its recommendations are still under consideration. In the meantime the system has deteriorated thus heightening public awareness of the need for improvements. Effective implementation, as discussed in the feasibility study report, would require institutional and management considerations including the following:

- establishment of a Presidential Implementation Task Force (PITF) to enlist and coordinate the involvement of various government agencies and municipal jurisdictions during implementation of the Project;

- contracting an outside team of engineering and financial experts to assist the PITF in implementing system changes, including obtaining financing, allocating funds and purchasing equipment and services; and

- legislation to discontinue the Metro Manila Commission and replace it with the Metro Manila Authority. Whatever entity is charged with responsibility for solid waste management, it should be strengthened and given total authority for the Metro Manila solid waste collection and disposal system. Moreover, it should have taxing authority or receive appropriated funds from the Metro Manila jurisdictions to implement an effective solid waste plan and operate the system properly.

Issues/Observations - In determining the entity to operate the system a key issue is whether to contract out or public operation. The study recommends that the government control and maintain ownership of transfer stations and landfills even though operation of these facilities could be contracted out. It also recommends (a) seeking bids from established international solid waste management corporations for the equipment, personnel operation and management of the secondary haul system, (b) comparing the bids to the costs estimated for public ownership and operation of the system to confirm which is the least expensive and most desirable method of providing the service. The cost estimates cited above are based on public ownership and operation of the facilities and rolling stock.

It should be pointed out that Waste Management Inc., a U.S. firm, has made a proposition to GOP authorities for the operation and management of such a system.

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ANNEX H

BACKGROUND ON SELECTED SECTORS

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Annex I

BACKGROUND ON SELECTIVE SECTORS

A. PHILIPPINE TRANSPORT SECTOR

1. Importance of Transportation to Economic Growth

An adequate transport infrastructure is a prerequisite, though not a guarantee, for economic development to take place. Efforts to expand agricultural production require the timely availability of seeds, fertilizers, and other inputs as well as timely access of farmers to markets made feasible by adequate, efficiently functioning transport systems. Expansion in industrial output requires the efficient transport of raw materials as well as the distribution of finished products. Transport of export products require adequate airport and port facilities as well as good land transport connections to the airports and ports.

An efficient transport system and adequate infrastructure support are crucial to opening markets and the economy. Open markets and open economies increase economic opportunities and stimulate expanded private sector investments. Open markets enable the private sector to play a stronger role in the economy and to strengthen the private sector's voice and promote greater choice through diversification and increased economic opportunities. Building transport linkages between the metropolis, secondary cities, market towns and production areas is essential in attracting private sector capital investments, creating employment opportunities and enabling labor to be actively mobile in search for jobs and business activities, and spreading the benefits from economic progress.

2. Background on Philippine Transport Sector

The Philippine transport system is multi-modal, comprising about 157,450 kilometers of roads, 622 public ports, 314 private ports, a railway system of some 700 kilometers in Luzon, 6 international and more than 80 other public airports. In addition, Metro Manila has a 15 kilometers elevated light rail line for urban mass public transport. Roads and inter-island shipping clearly predominate the transport system, accounting for almost all of national freight and 98 percent of passenger movements.

Both the private and public sectors have a strong presence in the transport sector. In road transport, the private sector predominates, with the exception of the government-owned Metro Manila Transit Corp. and privately-owned JD Transit Corp., which was taken over by government after its closure due to a unsettled labor strike problem. Both companies provide public bus transport services in Metro Manila. Almost all roads, with the exception of a negligible amount of privately-constructed roads, are provided and maintained by the government.

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The domestic shipping industry, which operates both inter-island and international services, is 100 percent owned by the private sector. There exist both public and private ports. Operations at public ports are divided between the government (Philippine Ports Authority) and private companies in charge of cargo handling. The railway system is operated by a government entity, the Philippine National Railways. The light rail system in Metro Manila is also owned and managed by the government-owned Light Rail Transit Authority. Domestic public air transport, which was a former exclusive domain of the government-owned Philippine Airlines, has now acquired limited participation of private operators' services.

3. Constraints to Growth of Philippine Transport Sector

a. Under-Investment

Together with a long period of government regulatory policies on the sector, general macro-economic problems of the country such as serious balance of payments and budgetary deficits, persistent growth in population, severe poverty and unemployment problems have adversely affected the overall performance of the Philippine transport sector, in terms of both resource/investment, and social and institutional management. These macroeconomic problems have exacted a heavy drain on the government's limited financial resources such that the provision of basic transport infrastructure and public services have been for less than the "amount desired or needed for economic growth." Rationing of transport infrastructure and public services has also made overall delivery inefficient, costly and inconvenient for the general public.

Although there is considerable assistance to the sector from the donor community, infrastructure investment requirements of the country remain immense and the available investment resources very limited and scant. A World Bank assessment (1988) showed that the Medium Term Public Investment Program (MTPIP) for 1987-1990 aims for a massive infrastructure build-up to support economic recovery and agro-industrial development (82 percent growth in real terms) compared to the 1985-1990 program. The MTPIP provides for the highway subsector to receive the largest share of funding, about 70 percent, followed by the ports subsector with about 15 percent.

A major concern to this massive infrastructure plan is the lack of available financial resources. Funds have been committed only for a portion of the identified infrastructure needs. For instance, in order for the 80 percent of arterial roads to be in good condition, there is need over a five year period for the construction, rehabilitation and improvement of 12,000 kilometers of roads costing @26 billion ($1.1 billion using @23.50:$1.00) in 1990 prices. Of this amount, only @14 billion or about $600 million has already been committed.

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b. Limited Private Investment

Despite government efforts to entice private sector participation in the provision of transport services, transport infrastructure and basic social services, there is very little or almost negligible realized private investments in building infrastructure and the provision of basic social services. Increased private capital infusion in transport infrastructure and services is seriously hampered by inadequate credit funds available (as well as government regulations.) Private investors, except large multinational firms who can easily tap foreign funds, do not have access to both domestic and foreign long-term funds. The Philippine capital market is undeveloped such that it does not serve as a domestic source of long term funds. Local commercial banks mostly provide short-term funds because of the commercial risks involved and the high cost of money in the country, with interest rates on commercial loans ranging from 24-28 percent annually. The limited domestic credit facilities has been due to heavy borrowings of the government to finance its budget deficit and to defend the value of the peso. Access to foreign loans is almost impossible due to government limitation on private foreign borrowings.

c. Over-Centralization

The centralized form of government wherein authority and financial resources are overly vested in the central national government has contributed to the inadequacy and delay in the delivery of public services. The lack of local autonomy for local governments has exacerbated the inadequacy of transport infrastructure and public transport services. Local governments units (LGUs) lack the authority and discretionary resources to provide local transport infrastructure efficiently in their respective local communities. LGUs participate in development planning but have limited authority to approve development projects. Local governments have to rely heavily on the central government for funds to finance their transport infrastructure construction. Local budgets are constrained by mandatory legal provisions. Local government authority to raise revenues from local sources is severely limited, i.e. there is limited local authority and flexibility in local property tax valuation, assessment levels and tax rates. These have resulted in overall inadequacy, inefficiency and overall delay in the supply/delivery of transport infrastructure and services.

d. Regulatory Policy Environment

Transport policies in the Philippines are not conducive to the promotion of an efficient transport industry. The transport industry is _de jure_ fully regulated by the government in all aspects of its operations; _de facto_ as a very large number of commercial transport operations take place outside the existing legal framework.

Government policies in the transport sector have long carried a strong regulatory bias, particularly in road transport and inter-island shipping where the private sector predominates. It is only during the very recent years have steps been taken by the government to answer questions and doubts raised on government regulatory policies. While there have been significant steps undertaken to reduce regulation in inter-island shipping and air transport, much remains to be done.

Government-regulated transport fares, unless they correspond to equilibrium prices, give distorted signals to both producers and consumers of transport services which lead to misallocation of resources in the sector. Government regulation over entry and operations of government firms/agencies in the sector tend to discourage competition and to weaken incentives to achieve higher efficiency in operations. Highly restrictive and protectionist import policies of the government over automotive vehicles, components and spare parts which can be produced locally have only protected the inefficient domestic vehicle industry and resulted in serious misallocation of scarce resources.

Although the transport system has generally been able to provide in gross terms the services required by the economy, i.e. it meets transport demand, and there are no apparent serious bottlenecks except for traffic congestion/inadequate transport vehicles in Metro Manila and for unshipped grains surpluses from Southern Mindanao, transport costs are high and capacity severely constrained. Maintenance of transport infrastructures such as roads, ports and airports has been neglected and investments kept to a minimum; leading to excessive costs.

Little or no progress is being made on improving the condition of the road network which comprises provincial, municipal, city and barangay roads due primarily to lack of funds for maintenance, diversion of maintenance funds for other purposes, delays in contracting out maintenance work, and also due in part to poor design and/or construction quality. Poor condition of port facilities, inadequate port land and storage areas, unsatisfactory and insufficient cargo handling equipment and high but unnecessary port and cargo handling charges are caused primarily by lack of funds for port development and maintenance, failure to codify maritime law, regulations affecting entry and price setting. As a result, most transport infrastructures such as roads and ports are in less than satisfactory condition and some have badly deteriorated. Continued expansion of the Philippine economy will worsen their present sad state.

There also exist serious safety problems in the transport industry. A 1986 study of the Department of Public Works and Highways revealed that road safety has become a serious problem, costing the country around @1 billion per year or about $42 million. In inter-island shipping, most passenger services have very low standard in terms of safety, comfort and travel time. Overloading of passengers is the rule. The shipping industry can be blamed for acquiring and using vessels that are not seaworthy. But this act is due to cost considerations, which again suggests lack of competitiveness in the industry. The government is partly to be blamed because of its regulatory policies which cause uncompetitiveness in the sector and of its outdated, inconsistent safety rules and standards.

4. Government and Donor Plans

a. Government of the Philippines (GOP)

The GOP recognizes the serious infrastructural constraint to Philippine development, i.e. poorly maintained roads, insufficient farm-to-market roads, high cost of shipping services, and has pronounced its avowed policy of providing, with the help of the private sector, infrastructure and basic social services. It is also trying to improve safety through better enforcement of safety rules.

In response to the clamor for less government intervention in the sector, the GOP has adopted a general economic deregulation policy with regard to the transport sector. The Cabinet has approved several measures which are aimed at de-regulating the inter-island shipping industry, i.e. deregulation of fares for first and second class passengers, MARINA protection of shipping routes shall be available only for five years, abolition of 10 percent share of the Philippine Ports Authority on stevedoring and arrastre fees. Trucking has been de facto deregulated and the vestiges of de jure regulation of the trucking industry are being removed. Franchising requirement is largely a formality. Despite all these efforts, much remains to be done.

b. Donor Community

The transport sector in the Philippines has received external assistance from both multilateral and bilateral sources. Assistance has been aimed at construction, rehabilitation and maintenance of infrastructure like roads, ports, air navigation, etc. The World Bank has been the largest source of assistance, followed by the Asian Development Bank (ADB). The World Bank has done a lot of work on highways, rural roads, airports and provincial ports. It is currently designing a transport sector loan project that will have a policy component on transport deregulation, financing for renewal of the commercial vehicle fleet, and infrastructure rehabilitation for national highways, ports and other inter-island maritime transport infrastructure.

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ADB's assistance centered on construction and rehabilitation/maintenance of highways, rural roads, and the Manila Port. Presently under ADB's consideration is the proposed Road and Road Transport Sector Loan Program whose fund disbursements are based on a series of road transport policy reforms and related measures undertaken by the GOP during 1990 and 1991.

Japanese assistance include construction/rehabilitation of the Philippine-Japan Friendship Highway which passes through Luzon, Samar, Leyte and Mindanao, road construction, improvements and traffic management in Metro Manila, feeder ports construction, air navigation modernization, and railcar maintenance depot construction.

USAID has provided grant assistance for rural roads development/assistance as well as municipal port construction in various parts of the country. Through its budget support programs, USAID has also encouraged GOP policy reforms in the transport sector through adoption of measures aimed at liberalizing the maritime transport industry.

Assistance from Kuwait was channeled to the road improvements in Mindanao through a co-financing arrangement with ADB. The OPEC Fund has helped finance part of the foreign exchange cost overrun of the ADB-assisted Cotabato-General Santos Road Project.

Australia has assisted in financing rural road improvements as part of integrated area development projects in Zamboanga del Sur and Northern Samar.

5. Remaining Tasks

In order to achieve economic efficiency in the transport sector, the GOP has to adopt more economic deregulation measures and to increase investment in infrastructure. The GOP is seriously committed to do less intervention in the sector. Major donors such as the World Bank, ADB and USAID are planning to extend a lot of assistance to the GOP in improving the overall transport policy environment and providing needed infrastructure, e.g. roads, ports, airports. Together with these three donors, the IMF is helping relieve some of the Philippines' macroeconomic constraints through policy assistance in various economic sectors of the Philippine economy. However, the task is so immense that increased private sector investment is also needed.

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B. ENERGY SECTOR

1. Constraints

Energy demand generally marches in step with domestic economic activity (implies a nearly unitary income elasticity of energy demand). But the energy demand-income relationship was exceptional during the recovery phase of the Philippine economy over the last few years. Between 1986 and 1989, energy demand grew by more than 8 percent a year, exceeding the country's growth of nearly 6 percent and approaching the limits of supply. Hence, without additional capacity of the energy sector to supply more energy at competitive prices, economic growth in the immediate future will be constrained, causing the economy to settle on a long-term economic growth path that will not provide substantial improvement in standards of living for the majority.

The main constraint to the sector's growth is the lack of investment in capacity to supply more energy at competitive prices in the face of rising demand for energy as economic recovery is sustained. In 1989, as a consequence of power shortages, manufacturing and service industries suffered $1.3 billion in economic losses, approximating 2.9 percent of 1989 GNP. Without presenting a viable alternative, the mothballing of the nuclear power plant (expected capacity of 620 megawatts) whose construction was supposed to have been completed in 1985, only aggravated the present situation. While energy investments, particularly private capital are urgent, the question of what indigenous energy source to develop in light of declining oil prices remains to be asked.

Absence of an institutional coordination in the development of long-range energy plans is another constraint. The Ministry of Energy was abolished in 1987 when domestic energy demand was below supply and prevailing oil prices abroad were soft. However, with the situation reversed, long range planning and matching investments in the energy sector are critical for the nation's sustainable growth and development.

The pricing mechanism, particularly in the electricity, geothermal and coal subsectors, has to be improved to reflect consistency between the electricity tariffs charged to various customer classes and the costs of generating these energy supplies. Moreover, operational efficiency in the power sector has declined considerably with losses increasing from 14 percent in 1980 to 18 percent in 1988. Remaining barriers to the private sector participation in energy sector investments have to be removed to attract private capital flows (both foreign and local) and induce greater operational efficiency.

Environmental safeguards were imposed by the previous government on land development and resource exploitation, including the establishment of environmental standards of water and air quality as embodied in the Philippine Environmental Code. However, monitoring of compliance to these standards is weak. This is largely due to the absence of a single government agency capable of monitoring these violations and imposing sanctions against violators.

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2. Government and Donor Plans

Realizing the need to undertake major policy changes and energy investments in order to alleviate the various constraints to sectoral growth, the government of the Philippines (GOP) requested the World Bank for financial assistance guided by an energy sector study and review in September 1988. Results of the least cost analysis of the power sector development in the context of the sector study show that geothermal development in Luzon should be expedited; power plants fueled by imported coal could respond to the current electricity demand problem; and that the merits of replacing imported coal with domestic coal is strengthened by rising trends in international energy prices.

GOP has recently created the Energy Coordination Council (ECC) in the Office of the President to coordinate the government agencies in the preparation of a strategy to develop the geothermal, coal and power subsectors. As secretariat of ECC, the Office of Energy Affairs (OEA) is tasked with the annual preparation and review of the long-term plan for energy development in consultation with other government agencies.

Through rehabilitation of its aging power plants, National Power Corporation (NPC) hopes to reduces power generation inefficiency. Transmission and distribution costs of the Manila Electric Company (MERALCO) are gradually being reduced since the latter has taken measures against meter tampering and other forms of pilferage. In 1988, MERALCO's program has led to the reduction of losses by about 17 percent. Energy pricing reforms emphasize the consolidation of regulatory aspects of energy pricing under the recently created Energy Regulatory Board (ERB) and introduction of a marginal-cost-based electricity tariff structure to reflect the cost of service.

GOP issued the Implementing Rules and Regulations on May 25, 1989 as well as Executive Order 215 to encourage private sector participation in these ventures. GOP has also drawn up a list of government-controlled firms to be privatized as another way of attracting private capital. A Presidential Order issued in 1987 allows the private sector to supply power to NPC under various contractual arrangements (e.g. Build-Operate/Own-Transfer Scheme). NPC and the National Electrification Administration (NEA) have also drawn up their own guidelines for private sector participation. Philippine National Oil Company (PNOC) is expected to provide a framework, which will allow for various forms of joint ventures between PNOC and private firms in geothermal exploration and development. An Energy Management Bureau (EMB) was recently created to monitor the adherence to the environmental standards by institutions involved in energy development.

A World Bank (WB) Energy Sector loan amounting to $390 million is expected to support these policy changes and strengthen the technical and policy planning capacities of existing and newly created institutions involved in the development, exploration and generation of energy. Out of the $390 million WB loan, $200 million will go to NPC, $150 million to PNOC and $40 million to the GOP (OEA, EMB and ERB). Japan's EXIM Bank will provide an additional $150 million. The Asian Development Bank (ADB) is also playing an active role through its 15th Power Project and the Power Sector Cost Structure and Transfer Pricing Study, which will be the basis for the electricity tariff reform. ADB has also assumed the debt and equity positions in the BOT agreement with Hopewell International.

3. Remaining Tasks

While the prospects for private sector participation are very encouraging, sources of financing and type of debt facility for energy investment projects are still lacking. The latter obviously requires a long-term debt facility that could be tapped by the private sector.

Technical assistance to OEA may come in the form of developing a framework for private cogeneration while NPC may require assistance in facilitating the processing of project proposals from the private sector.

MERALCO and NPC's capacity to plan and anticipate the effects of changes and shifts in the energy demand will be greatly improved by a demand management system/program.

The discovery of significant deposits of natural gas in the Palawan area could change considerably the mix of potential energy supply and thus, affect investments in the sector. Environmental problems posed by oil, coal and geothermal sources of energy may encourage greater use of natural gas. Environmental impact assessment of government institutions should be strengthened to incorporate environmental analysis in the early stages of project development.

Over the medium-term, major concerns revolve around the sustainability of policy reforms to encourage greater private sector participation; development of power for industrial estates; and establishment of the energy resource data base.

In the long-term, reforms should be encouraged to develop financial and capital markets capable of financing private power projects.

C. TELECOMMUNICATIONS SECTOR

1. Constraints

The main constraint to growth of the telecommunications industry is the lack of a constructive and well defined institutional and regulatory framework, causing underinvestment as well as sectoral fragmentation. As a result, the sector has failed to provide adequate telecommunication services that can support sustainable economic development. Economic progress buttressed by industrial/investment dispersal will hardly be ushered unless the conditions of the country's infrastructure, i.e., the telephone density of 1 per 100 overall (average for less developed countries is 3 per 100) and 1 per 1000 inhabitants in the rural sector are improved considerably.

Lack of telecommunication services is particularly acute in the rural areas. About 70 percent of municipalities in the rural areas have no access to telephone service. Thus it is not surprising to see domestic and foreign investors bypass places outside Metro Manila, especially in the nonurban areas, despite tremendous business potential offered by these areas, creating uneven patterns of economic progress between the urban and nonurban sectors, between Metro Manila and places outside Metro Manila. Telecommunication, just like power and other infrastructure services, is regarded as a catalyst or a 'leading agent' of balanced, broad based economic growth coupled with industrial/investment dispersal. Thus, issues constraining sectoral growth have to be addressed soon.

The absence of a well defined institutional and regulatory framework spawned technical, structural and financial constraints to sectoral growth. A major financial issue is the low tariff structure imposed by the National Telecommunications Commission (NTC), a regulatory entity attached to the Department of Transportation and Communication (DOTC). The prevailing tariff structure allows telephone operating companies to earn a 12 percent rate of return on a rate base, consisting of the appraised value of the plant in service plus 2 months' operating costs. As a consequence, the 55 small provincial telephone companies (SPTC) managing 3 percent of the telephone main stations, unlike the private telephone monopoly known as the Philippine Long Distance Telephone Company (PLDT) (telephone service share of 94 percent), are unable to attract capital necessary to undertake needed investments and thus, improve their technical capability.

Previous studies on the telephone tariff system recommended that in view of 'price inelastic' behavior that appears to exist and the need to attract investments in the sector, a tariff hike ranging from a low of 50 percent to as much as 100 percent over their current levels may be required, complemented by a shift to metered pricing (in lieu of flat rates) to reflect usage sensitive pricing as an equitable basis for charging phone services in Metro Manila and other urban centers where a systems overload frequently happens. Other considerations are the use of marginal cost pricing principles, the imbalance between demand and supply and the GOP objectives on regional/rural development. Apart from the low tariffs, the toll revenue sharing and the inability to collect charges for the incoming automatic calls are reducing the financial viability of SPTC operations. Moreover, the very high domestic cost of money and the inaccessibility of private telephone carriers to foreign funding without GOP guarantee are additional factors that limit the flow of needed capital in the sector.

Sectoral fragmentation of the sector is mainly due to a lack of the framework which identifies the categories of telecommunications entities and lays out their responsibilities; determines the degree of integration of the elements in the industry; and defines the type of industrial structure and/or competition as well as the degree of regulation that will arise therein.

The telecommunications industry is overwhelmingly private which limits the government's presence in the sector to the service of those areas not covered by private carriers and to the determination of appropriate regulation that will foster the sector's growth and development. The latter requires an expanded role for NTC. However, NTC lacks the monitoring capability as well as the independence and technical know-how to initiate the development of equipment standards, approval of new construction and equipment procurement, review of industry plans and performing other technical services including facilities planning.

Bureau of Telecommunications (BUTEL), renamed Telecommunications Office of DOTC (TELOF), is tasked with the operation and maintenance of the public telecommunications sector (another 3 percent of the total telecommunications industry). TELOF does not have sufficient in-house capability to manage the telecommunications network efficiently, despite ODA funding available for the expansion of the public telecommunications sector. As a result, TELOF is incurring heavy losses (in 1988, it registered a loss of 170 million pesos, up from 110 million pesos in 1985) and its quality of the service is extremely poor in contrast with the private carriers.

2. Government and Donor Plans

Presidential Memorandum Order No. 163, issued last March 1988, created the National Telecommunications Development Committee (NTDC), a GOP/industry forum to bring together representatives of the private and public telecommunications sector and thresh out various telecommunications issues, including restructuring and revenue sharing. A number of proposals on industrial restructuring have been raised and these vary from government monopoly, oligopoly with various degrees of regulation, regulated competition to full deregulation or complete liberalization.

Senate Bill 1353, otherwise known as the Public Telecommunications Policy Act of the Philippines, contains key provisions for restructuring of the sector based on the resolutions/discussions of the NTDC. The Bill establishes the categories of the telecommunications entities (local exchange carrier, inter-exchange carrier, international carrier, value added network provider, public calling office operator and specialized carrier) and sets the rules governing the scope of operations/responsibilities of each entity. The contents of the Bill in general might not be looked upon favorably by the pro-private sector bloc of the Aquino administration since it sponsors the 'vertical disaggregation' of PLDT. The recent appointment of Transport Secretary Orbos has cast a new twist to the ongoing initiatives to restructure the sector in light of his pronouncements to dissolve NTDC by 31 March 1990 and replace it with the Telecommunications Action Group consisting of a limited set of sector representatives.

New telephone subscriber charges have been proposed. A component of the tariff proposal is DOTC's subscriber investment plan (SIP) which mandates purchase of 10 percent preferred non-voting shares by the new subscriber (e.g. for a single party-line, the SIP for commercial users is 2,000 pesos, 700 pesos more than the SIP for residential users) to generate savings for capital build up of the telephone operator and pass on to the subscriber a portion of the installation costs. While a proposal to raise monthly charges is being considered for implementation, the telephone tariff systems still allows residential lines to be subsidized by commercial subscribers (e.g. for one-party line, commercial subscribers are charged 399 pesos monthly while residential subscribers pay 244 pesos). The recommended SPTC tariff is less than 100 pesos monthly although the operational costs are much higher. Further, the proposed toll rate per minute to Manila under the Rural Telephone Program of 5.20 pesos is low by comparison to what the private telecommunications company are charging.

The NTDC task force addressed the issue of revenue sharing and came out with general principles on the traffic settlement agreements between telephone companies. The task force also elicited proposals from the sectoral representatives on new revenue sharing schemes for SPTCs. Highly favored by Secretary Orbos is the proposal for a 40 percent retention on all outgoing and incoming domestic toll calls and 40 percent of the Philippine share on all outgoing and incoming international calls.

In 1983, the National Telecommunications Development Plan (NTDP) was adopted by the GOP to extend essential telecommunications services to areas beyond the urban centers. One of the projects is the National Telephone Project (NTP) designed to provide telephone services to Regions III - XII (Rural Telephone Development Plan funded by the Japanese was the first project aimed at providing 19,000 telephone lines in Regions I and II). Under NTP Tranche I, telephone services for 85 unserved areas where demand exceeded 300 lines are targeted. NTP Tranche II, currently renamed the Rural Telephone Project (RTP), will cover areas with demand less than 300 lines. The installation of Public Calling Stations (PCS) and the implementation of small exchanges in 1,080 municipalities are the components of the RTP. Due to the RTP's huge financial requirements ($150 million), the project was scaled down to stress the installation of the PCS in the different municipalities. Renamed the Municipal Telephone Project (MTP), it involves PCSs in 1,080 municipalities with an estimated budget of 1.9 billion pesos or $83 million (at the exchange rate of 23 pesos to a U.S. $). These plans are to be supported by various training programs for the support staff of NTC, MTP, SPTC, TELOF and DOTC Project Management Organizations.

The Asian Development Bank (ADB) is trying to commit donor participation in establishing a $500 million telecommunications development fund (TDF). TDF will provide funding for telecommunications development projects of the private sector in line with ongoing plans of restructuring the sector as well as in anticipation of the National Telephone Development Plan for the period 1991-2010. Although IBRD is cool to the idea, the proposed funding contributions would have this profile: ADB, $130 million untied 6 percent loan; IBRD, $150 million untied 6 percent loan; AID, $150 million tied grant; Japan, $20 million tied grant; and Canada, $40 million tied 4.5 percent loan. MTP funding, on the other hand, are expected to be in the form of concessionary pledges of a mixed credit of 41 million Canadian dollars from the Canadian Export Development Corporation (25 million Canadian dollars at 8 percent loan) and CIDA (16 million Canadian dollar grant) for 5-6 'island regions' and a $20 million grant from the OECF for activities in Regions I-IV. AID is being invited to finance the MTP for Regions VI-XII.

CIDA is also supporting the systems engineering and training component of the RTP by providing 4.7 million Canadian dollars, stretched out over 4 1/2 years. Under NTP Tranche I, the Japanese are expected to sponsor an increase of 59 kL (kilometer of telephone lines) in Regions III-V at a cost of $130 million. Under NTP Tranche II, the French pledged funding for an additional 20kL in the Visayas. The Italians are expected to support an additional 43kL in Mindanao under NTP Tranche III. PLDT has launched its X-5C Expansion program that will add 355kL to its system at an estimated cost of $600 million. The program is a follow up to its 9.5 billion peso ($413 million) X-5 program started last year.

3. Remaining Tasks

Indefinitely suspended is the Maritime Coastal Communications (MCC) project costing $15 million simply because of the nonendorsement of big shipping companies. At present, the coverage of MCC stations numbering 20 is limited to a relatively small area of the archipelago. Expansion of MCCs's coverage is one of the objectives of the project.

Executive Order No.72 imposes a franchise tax from 2 to 3 percent and a 35 percent tax on net income of utilities reducing further the likelihood of generating working capital and savings for future capital buildup. Another financing constraint on the expansion plans of private carriers, particularly PLDT, apart from inaccessibility to foreign borrowing without GOP guarantee, is the rule of single borrower limits of commercial banks.

Greater coordination of donor activities in the telecommunications sector is a big step in establishing the development fund for the sector to alleviate financing constraints of private carriers and allow them to expand and improve their quality of service.

The issue of cross subsidization still remains to be resolved along the objectives of allocating the lines more efficiently between commercial and residential subscribers balanced by the need to speed up the extension of services to the second and third hierarchy towns. Still remains to be implemented by private carriers is usage sensitive pricing most specially in places like Metro Manila where a systems overload is frequently experienced.

The development of local capability to manufacture electronics and communications equipment comparable to international standards for use of telecommunications entities has barely started. Local manufacturing capability within practical limitations assures continuity of supply, matches demand and scale economies, generates employment, saves on foreign exchange and tailors products to country's specific needs.

I

ANNNEX I

SECTION 611(E) CERTIFICATION

I-1

CERTIFICATION PURSUANT TO SECTION 611(e)

OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Malcolm Butler, the principal officer of the Agency for International Development in the Philippines, having taken into account, among other things, the maintenance and utilization of projects in the Philippines previously financed or assisted by the United States, and the technical assistance to be provided under the Project to further the country's capacity to maintain equipment and support economic growth, do hereby certify that in my judgment, the Philippines has both the financial capability and the human resources to maintain and utilize effectively the capital improvements and facilities to be financed in the four priority sectors as identified in this proposed Philippine Capital Infrastructure Support project.

This judgment is based upon the project description and analyses as detailed in the Philippine Capital Infrastructure Support Paper and is subject to the conditions imposed therein.

Malcolm Butler

Malcolm Butler
Director, USAID Philippines

NOV 9 1990

Date

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