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Department of State

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TELEGRAM

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E.O. 11652: M/A

PROJECT #4920274

SUBJECT: SMALL SCALE IRRIGATION - REVISION TO PROJECT PAPER

1. FOLLOWING IS A PROPOSED PROJECT PAPER REVISION:

A. SUMMARY: THE PURPOSE OF THIS PROJECT PAPER REVISION IS TO INCREASE LOP FUNDING FROM 3000 TO 11156 THOUSAND AND PROVIDE ASSISTANCE IN FINANCING THE TECHNICAL SERVICES OF IRRIGATION, WATER MANAGEMENT, AND OPERATIONS ADVISORS.

B. BACKGROUND: THE FARM SYSTEMS DEVELOPMENT CORPORATION (FSDC) WAS CREATED BY PRESIDENTIAL DECREE NO. 561 WHICH WAS SIGNED BY PRESIDENT MARCOS ON APRIL 4, 1975. FSDC'S PROGRAM IS INTENDED TO IMPELIZE DEVELOPMENT CREDIT DIRECTED PRIMARILY TOWARDS TWO AREAS: CONSTRUCTION OF SMALL SCALE IRRIGATION SYSTEMS AND ACQUISITION OF FARM TOOLS AND EQUIPMENT. THE MAJOR OBJECTIVE OF FSDC'S PROGRAM IS TO ACCELERATE RURAL DEVELOPMENT BY INCREASING RURAL INCOMES AND AGRICULTURAL PRODUCTIVITY. TO DO THIS FSDC ORGANIZES AND DEVELOPS GROUPS OF FARMERS INTO BARANGAY LEVEL IRRIGATORS' SERVICE ASSOCIATIONS (ISA'S) WHICH SERVE AS VEHICLES FOR FARMERS TO OWN, OPERATE, AND MANAGE THEIR IRRIGATION SYSTEM AND FARM SUPPORT EQUIPMENT AND FACILITIES. EACH ISA, AS A LEGAL PERSONALITY, HAS AUTHORITY TO BORROW FOR PROJECT CONSTRUCTION AND EQUIPMENT AND IS RESPONSIBLE THROUGH ITS OFFICERS TO ITS FARMER MEMBERS FOR COLLECTION OF FEES, OPERATION MANAGEMENT AND MAINTENANCE OF THE SUBPROJECT AND, TO FSDC, FOR LOAN REPAYMENT. THESE ISA'S, AVERAGING 100 HECTARES IN SIZE, SERVE AS CONDUITS FOR TECHNICAL AND FINANCIAL SERVICES FROM GOVERNMENT AND PRIVATE AGENCIES. THEY ALSO SERVE AS CENTERS OF INFORMATION, SKILLS DEVELOPMENT, TRAINING FOR SELF-GOVERNMENT AND OTHER COOPERATIVE ENDEAVORS GEARED TOWARD BOLSTERING THE INCOME AND PRODUCTIVITY OF THEIR MEMBERS. IRRIGATION SYSTEMS, IMPROVED FARMING METHODS, PROCESSING AND MARKETING PRACTICES AS WELL AS INNOVATIVE TECHNOLOGIES DESIGNED TO APPROPRIATELY UTILIZE LABOR, CAPITAL AND LAND ARE INTRODUCED TO STRENGTHEN THE STATUS AND VIABILITY OF THE ASSOCIATION. THIS IN TURN DIRECTLY BENEFITS LOW INCOME FILIPINOS LIVING IN RURAL AREAS.

AID INITIATED SUPPORT OF THIS PROGRAM IN JULY 1975 WITH THE SIGNING OF \$6.5 MILLION LOAN AGREEMENT (492-T-03A). LOAN FUNDS WERE MADE AVAILABLE FOR (1) ACQUIRING BASIC COMMODITIES IN SUPPORT OF FSDC AND (2) REIMBURSING UP TO 50 PCT OF DIRECT LOCAL CURRENCY COSTS OF INSTALLING SMALL SCALE IRRIGATION SYSTEMS AND FARM SUPPORT FACILITIES FOR 400 IRRIGATORS' SERVICE ASSOCIATIONS (ISA'S). A PROJECT AGREEMENT PROVIDED GRANT FUNDS FOR TECHNICAL ASSISTANCE, PARTICIPANT TRAINING AND COMMODITIES TO FACILITATE ACHIEVEMENT OF PROJECT OBJECTIVES DEFINED IN THE PROJECT PAPER IN THE AMOUNT OF 1800,000.

C. DISCUSSION: DURING THE INITIAL YEAR OF FSDC'S LENDING OPERATION, THE BOARD APPROVED THE FINANCING OF 029 PROJECTS WITH A TOTAL AMOUNT OF PESOS 38.9 MILLION (\$5.2 MILLION EQUIVALENT). LOAN RELEASES IN THE AMOUNT OF PESOS 23.8 MILLION (\$3.1 MILLION EQUIVALENT) WERE GEOGRAPHICALLY DISPERSED IN 25 PROVINCES. DURING THE MIDDLE PART OF 1976, THE PROGRAM WAS EXPANDED TO INCLUDE LOANS TO FARM EQUIPMENT CONSTITUTING 5 PCT OF THE TOTAL LOANS APPROVED.

FSDC HAS IDENTIFIED 470 POTENTIAL PROJECTS COVERING 61,000 HECTARES FOR PARTICIPATION IN THE PROGRAM. AS OF JULY 1977, FSDC HAD ORGANIZED 405 ISA'S AND INSTALLED PUMPSETS IN 262 IRRIGATION SYSTEMS WITH A DESIGN AREA OF 30,470 HAS. THE PROPOSED 1356 THOUSAND ADDITIONAL GRANT TO PARTIALLY FINANCE TECHNICAL ADVISORY SERVICES IN IRRIGATION, WATER MANAGEMENT, AND OPERATIONS WILL ENHANCE THE AID AND GOP INVESTMENTS MADE IN PHYSICAL AND INSTITUTIONAL INFRASTRUCTURE IN THAT IT WILL CONTRIBUTE TO THE VIABILITY OF THE ISA'S.

IN ADDITION TO PROVIDING ENGINEERING SERVICES, THE AID-FINANCED U.S. CONTRACTS WILL PROVIDE MANAGEMENT/FINANCIAL ADVISORY SERVICES TO FSDC AND TO THE ISA'S IN ORDER TO ASSIST THEM WITH THEIR INSTITUTIONAL DEVELOPMENT. SINCE FSDC IS CHARGE WITH MAINTAINING ITS FINANCIAL VIABILITY, ITS POLICY IS TO ENTER INTO LOAN AGREEMENTS FOR THE IRRIGATION SYSTEMS. MANY ISA'S ARE INCURRING OPERATING LOSSES BECAUSE REVENUES ARE INADEQUATE TO COVER BOTH CURRENT OPERATING EXPENSES AND DEBT SERVICE ON FSDC LOANS. IT IS IMPERATIVE THAT THE SYSTEM BE TECHNICALLY ADEQUATE, ECONOMICALLY FEASIBLE AND EASILY REPLICABLE. THE PROJECT IS FACING CRITICAL IMPLEMENTATION PROBLEMS WHICH MUST BE SOLVED

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SOON IF PROGRAM GOALS ARE TO BE MET. ISA'S ARE EXPERIENCING DIFFICULTIES DUE TO THE LACK OF RELIABLE WATER SUPPLY, IMPROPER ALLOCATION AND USE OF WATER, INSUFFICIENT AND UNTIMELY WATER COVERAGE, HIGH POWER COSTS AND INSUFFICIENT REVENUES FROM IRRIGATION FEES. BASICALLY, THE PROJECT NEEDS ASSISTANCE TO DEVELOP A TECHNICAL MODEL FOR PUMP IRRIGATION WHICH WILL INSURE RELIABLE AND EFFICIENT SERVICE TO THE ISA'S. AT THE SAME TIME, THERE IS A NEED FOR IMMEDIATE INTRODUCTION OF APPROPRIATE WATER MANAGEMENT PRACTICES AT THE ISA LEVEL. FIELD STUDIES INDICATE THAT DUE TO INEFFICIENT WATER DISTRIBUTION, ABOUT ONE-THIRD OF IRRIGATION WATER APPLIED DURING DRY SEASON IS LOST AND EVEN MORE LOST DURING WET SEASON. IN ADDITION, MANAGEMENT ATTENTION NEEDS TO BE DIRECTED TO THE SUBPROJECTS BEING DEVELOPED TO ASSURE REASONABLE PROJECTIONS IN ECONOMIC AND FINANCIAL FEASIBILITY ANALYSIS. MOST OF THE DATA USED IS SECOND-HAND, OF NECESSITY OBTAINED FROM OTHER AGENCIES BECAUSE FSDC IS RELATIVELY NEW AND HAS NOT YET DEVELOPED ITS OWN DATA BASE. FSDC PLANS TO BEGIN EXTENSIVE FIELD DATA GATHERING TO DETERMINE THE ACTUAL EXPERIENCE OF THE SUBPROJECTS. FARMER-BENEFICIARIES CONTRACT SIGNIFICANT LONG-TERM LOANS FROM FSDC THROUGH THEIR ISAS. PROJECTIONS OF INCREASE IN FARMERS' NET INCOME MUST BE REALISTIC IF ISA'S ARE TO BE VIABLE AND LOAN REPAYMENTS ADEQUATELY STRUCTURED.

ORIGINAL PROJECT PROPOSAL ENVISIONED A FAIRLY LARGE DIRECT-HIRE STAFF TO ASSIST FSDC WHICH NEVER MATERIALIZED. EFFORTS WERE MADE TO FILL GAP USING LOCAL A/E FIRMS. HOWEVER, THE SEVERE LACK OF PRACTICAL EXPERTISE NEEDED TO DESIGN APPROPRIATE PUMP SYSTEMS, IMPROVED WATER MANAGEMENT PRACTICES WITH ADEQUATE FINANCIAL INCENTIVES HAS HAD A CRITICAL IMPACT UPON PROJECT IMPLEMENTATION. THE MOST APPARENT ASPEC OF THIS PROJECT IS THAT IT HAS THE POTENTIAL TO BRING SIGNIFICANT ADVANTAGE TO THE PODR FARMERS AS PART OF THE TOTAL RURAL SYSTEM OF WHICH THEY ARE PART. AROUND THE INDISPENSABLE AGRICULTURAL INGREDIENT, WATER, PIVOTS A TOTAL AGRICULTURAL BEHAVIOR; FINANCING PRODUCTION, RATIONAL WATER UTILIZATION, A PACKAGE OF IMPROVED CULTURAL PRACTICES AND APPROPRIATE FARM EQUIPMENT, ADVANTAGEOUS MARKETING ARRANGEMENTS, CROP DIVERSIFICATION AND EDUCATION IN FINANCIAL RESPONSIBILITY.

FY 77 GRANT PROVIDED ADDITIONAL FUNDS FOR IRRIGATION AND PUMP ENGINEERS (20 M.M.) AND AN OPERATIONS ADVISOR (16 M.M.). AUTHORIZATION FOR INCREASE LOP GRANT FUNDING WILL PROVIDE ADDITIONAL TECHNICAL ADVISORY SERVICES PRODUCING A LEVEL OF TECHNICAL ASSISTANCE REQUIRED FOR PROJECT IMPLEMENTATION.

ANTICIPATED USE OF GRANT FUNDS FOR FY 78 WITH AUTHORIZATION INCREASE UNDER 55:

A. DIRECT HIRE	\$120,000
B. CONTRACT - IRRIGATION WATER MANAGEMENT	108,500
C. PARTICIPANT TRAINING	60,000
D. INVITATIONAL TRAVEL	6,500
E. RESEARCH AND DEVELOPMENT SUPPORT	40,000
F. AID/W EVALUATION	30,000

TOTAL	\$365,000

D. RECOMMENDATION:

1. AID APPROVE REVISION OF THE SMALL SCALE IRRIGATION PROJECT PAPER TO INCREASE LOP GRANT TO TOTAL OF \$1156 THOUSAND. ALL OTHER PARTS OF THE ORIGINAL PROJECT PAPER REMAIN AS WRITTEN.

2. WHEN PROJECT PAPER REVISION APPROVED BY AID/W, SUGGEST FACESHEET BE PREPARED BY AID/W, ATTACHED TO THIS NARRATIVE AND SIGNED COPIES POUCHED FOR OUR FILES AND RECORDS.

3. MISSION PLANS 1ST QUARTER OBLIGATION OF \$275,000; 2ND QUARTER, \$30,000; 3RD QUARTER, \$30,000; 4TH QUARTER, \$30,000 UNDER SMALL SCALE IRRIGATION I. STULL

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