

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

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

PHILIPPINES - SECOND FEASIBILITY STUDIES LOAN

AID-DLC/P-1083

UNCLASSIFIED

BEST AVAILABLE

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
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May 7, 1973

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Philippines - Second Feasibility Studies Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$2,000,000 to the Government of the Republic of the Philippines to finance all the foreign exchange costs of the project which will be carried out in conjunction with the Government of the Philippines 3 Year Economic Development Plan (1974-1976).

Please advise us as early as possible, but in no event later than close of business on Friday, May 11, 1973, if you have a basic policy issue arising out of this proposal.

Barbara L. Clary
Development Loan Committee

Attachments:
Summary & Recommendations
ANNEXES I - IV

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Philippines: Second Feasibility Studies Loan
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SUMMARY AND RECOMMENDATION

1. Borrower: The Government of the Republic of the Philippines (GOP).

Implementing Agency: The National Economic and Development Authority (NEDA) of the GOP,

2. Amount: Not to exceed \$2 million.

3. Terms: Principal to be repaid over a period of 40 years, including a 10-year grace period; interest to be repaid semi-annually, beginning six months after the first disbursement under the loan at the rate of 2% per annum during the grace period, and 3% per annum thereafter.

4. Description of Activity to be Financed: Proceeds of the loan will be used to finance the foreign exchange costs of prefeasibility and feasibility studies, sectoral studies, market studies and consulting services, including engineering services directly related to capital projects in the Philippines.

5. Purpose: To assist the GOP in the effective management of its limited economic resources by providing the foreign expertise needed to perform professional studies, analyses, and other similar professional services related to projects and other activities to be carried out in conjunction with the GOP's 3 Year Economic Development Plan (1974-1976).

6. Estimated Cost of Activity: \$2 million in foreign exchange; the GOP will finance all local currency costs,

7. Other Sources of Financing: A.I.D. is not aware that other appropriate financing is available for this purpose at this time.

8. Mission Views: The Mission feels that this loan is consistent with overall A.I.D. objectives in the Philippines, and that it is particularly appropriate for A.I.D. to provide such financing at this time.

9. Issues: There are no issues presented by this loan proposal.

10. Statutory Criteria: All statutory criteria have been met (see Annex 2).

11. Recommendation: Authorization of a loan in the amount of \$2 million to the GOP, in accordance with the terms and conditions stated in the Draft Loan Authorization (see Annex 3).

Project Committee

Loan Officer and Chairman:	Richard B. Perry, ASIA/CD
Country Desk:	Dennis M. Chandler, ASIA/EA/P
Engineering:	William C. Larson, AD/CD (USAID/Philippines)
Legal Advisor:	Michael G. Kitay, GC/ASIA

Drafted by: RBPerry

I. BACKGROUND AND INTRODUCTION

A. Recent Economic and Political Developments in the Philippines

The Philippines' pattern of development in recent years has been characterized in general by periods of rather strong growth, followed by Balance of Payments (BOP) crises necessitating restrictive measures and other adjustments which, in turn, usually placed additional strains on the economy. Despite an annual average growth rate of about six percent over the decade of the 1960's, the matter of external payment requirements was somewhat neglected and large borrowings from abroad were needed to finance current account deficits. Much of this borrowing, heaviest in the latter half of the decade, was in the short-to-medium term category. Toward the end of 1969, a major crisis occurred which finally resulted in long-overdue action. A major economic stabilization program was adopted in February 1970 which included a de facto devaluation of the peso and measures designed to limit further increases in short-to-medium term external debt. After an initial slowdown, the economy resumed reasonable growth in 1971 (approx. 6.5% increase in GNP) and continued showing signs of improvement through the first half of 1972, although decreased rice production and other difficulties caused BOP problems to persist.

In July and August of 1972, the Philippines suffered the most disastrous floods in their history, the damage statistics of which are now a matter of record. Concentrated in Central Luzon including the Greater Manila Area, the damage to public infrastructure (roads, irrigation and flood control systems, schools and other public buildings) private property, the all-important rice crop, together with other production interruptions of every nature is estimated at \$200 million.

In September 1972, President Marcos declared martial law, citing the general deterioration of public order and the threat of insurrection as the immediate reasons. However, the government has also stated its all-out commitment to a long-term effort of correcting the country's many ills. Priority objectives have been identified as agrarian reform, a more even distribution of economic benefits, and a general improvement in public responsibility and discipline.

Specific measures taken to date include a modified Constitution, a major reorganization of the government structure and a wide range of decrees and implementing orders aimed at increasing the prospects of economic growth.

As might be expected, the speed and far-reaching implications of the many changes taking place have resulted in a degree of confusion and uncertainty in the private sector. The government is also experiencing problems of adjustment while implementing actions catch up with orders and decrees. Problems of this nature are, for the most part, likely to be resolved given time, the sustained efforts of the government and the active cooperation of business and economic interests, including the availability of foreign assistance.

The extent to which the government can achieve the long-term goals of basic, social and economic reform is of course a much broader question which will undoubtedly receive considerable attention in the future,

B. The Consultative Group and U.S. Assistance to the Philippines

1. Historical

Prior to 1971, official U.S. aid to the Philippines consisted largely of commodity sales under P.L. 480, various programs of grant-financed technical assistance, and a modest level of development lending for such public sector activities as irrigation, pilot rural electrification cooperatives, and feasibility studies of other projects and programs having developmental priority; development loan assistance was also provided to the private sector for several industrial projects and to furnish seed capital for a development finance company.

2. The Consultative Group

In late 1969, the GOP asked the IBRD to organize and chair a consultative group (CG) of donor and potential donor countries. The request resulted in part from the above-mentioned external payments crisis then facing the country, but it also reflected a growing awareness by the GOP that development efforts could be substantially enhanced by the coordination and direction of official foreign assistance which a consultative group could provide. In responding to the GOP's request, the IBRD made it clear that the CG, if formed, would concern itself with long-term development matters and not simply the relief of short-term problems such as BOP crises. The IBRD also took the position that the formation of a CG would be dependent upon the GOP demonstrating a serious effort of development and the formulation of a multi-year development plan. The GOP undertook to satisfy the IBRD by formulating such a plan and by mounting an IMF-supported stabilization program.

The CG was formally established in 1971, under IBRD chairmanship with Australia, Japan, Spain and the U.S. as members; Canada, Germany, India, the Netherlands, New Zealand, Switzerland, the U.K, and DAC/OECD as observers; and the ADB, IMF and UNDP as participating agencies. In its relatively brief existence, the CG is felt to have already scored successes by gaining donor interest (in addition to that of the U.S.) in Philippine development needs, and by focussing that interest on priority areas. Through the IBRD and the IMF, the CG has also established itself as a major counsellor to the GOP on matters of economic policy.

For the GOP's part, it has continued to demonstrate full cooperation, and continued to consult with and accept the guidance of the IBRD and IMF, both of which have expressed considerable satisfaction with the GOP performance.

3. Foreign Assistance to the Philippines

At the first meeting of the CG in May, 1971, it was concluded that approx. \$200 million in official external concessionary assistance would be needed by the Philippines in each of the four succeeding years. In response to this recognized need, which was reiterated at the Second CG meeting in May 1972 (prior to the floods), some \$216 million was pledged, approximately \$55 million coming from the U.S. (\$20 million loan for rural electrification, and \$35 million in PL 480 Title I sales).

Following the 1972 floods, the IBRD assessed the impact on the economy and concluded that an additional \$100 million in quick-disbursing assistance was needed to offset the adverse BOP effects of the floods. The U.S. again responded with a \$20 million program loan (authorized in February 1973) and additional PL 480 sales. Further, in direct response to the immediate and extensive damage caused by the floods, the U.S. offered \$50 million in grant assistance to help finance the rehabilitation of major irrigation and flood control systems, provincial roads and other infrastructure, the construction of some 1,500 typhoon-resistant schools, and a program of accelerated rice production. To date, \$47.5 million has been allocated to specific project areas, and proposed uses for the remaining \$2.5 million are under active consideration,

As the GOP reviews and refines its Three Year Development Plan in preparation for the Third CG meeting, to be held in late May, 1973, the need for projects and activities developed to the point of readiness for financing has become quite apparent.

This need was indirectly called to attention at the Second CG meeting when the IBRD and the ADB did not make specific pledges but both stated their readiness to finance viable projects. Such project preparation and development requires professional services of a highly qualified and experienced nature, which are not in sufficient supply in the Philippines to meet the needs of its rapidly accelerating development efforts. The A.I.D. loan proposed herein would assist the GOP's development efforts by providing concessionary financing for the foreign exchange costs of the needed professional services.

II. DESCRIPTION OF ACTIVITY

A. Use of Loan Proceeds

Proceeds of the proposed loan will be available to finance the foreign exchange costs of such activities as pre-feasibility and feasibility studies, market studies, planning, engineering services, and other professional services and related commodities and equipment as may be required for the preparation and implementation of economic development projects and programs. The specific activities to be financed will be mutually agreed to by the GOP and A.I.D. At present, it is contemplated that the loan proceeds will be allocated totally to entities of the GOP, and used primarily for activities in the public sector. However, use of loan funds by the private sector is not precluded, and would be considered on a case-by-case basis at the request of the GOP. The terms and conditions of making these loan funds available to the private sector would also be subject to A.I.D.'s approval.

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

B. GOP Development Planning

1. Organization

One significant result of the recent government reorganization measures is the emergence of the National Economic and Development Authority (NEDA) as the key economic agency of the GOP. NEDA, formed by combining the major elements of the Presidential Economic Staff (PES) and the National Economic Council (NEC), is now charged with overall planning and policy formulation in the economic field as well as coordination of official assistance. As with any merger of two government entities, adjustments are required, and disruptions in planning and implementation functions are quite possible while such adjustments are being made. However, there is reason to expect that the formation of NEDA will bring about many improvements in the areas of economic planning, policy formulation, and the implementation of

development programs, NEDA will be the GOP agency responsible for managing the implementation of this proposed feasibility study loan,

2. The Development Plans

To date, the GOP has prepared two Four Year development Plans (FY 1971-1974, and FY 1972-1975), the second being basically an up-dated version of the first, but rolled forward by one year. A third Four-Year Plan was to have been prepared to cover the years 1973-1976, Due mainly to the disruptions resulting from last year's floods, preparation of the plan was substantially delayed and now, given that FY '73 is nearly over, the GOP is preparing a Four-Year Plan covering FY '74-'77. The plan will be published in the immediate future, prior to the CG Meeting scheduled for late May 1973 in Paris, Information concerning the new plan is quite limited, although it is understood that the organization of the plan has been changed from a perspective of country-wide economic sectors and functions, to a perspective of major geographic regions, each of which is dealt with in terms of its particular characteristics and problems. It is not thought that the basic objectives of the plan will depart significantly from those of the two previous plans, with land distribution, rural development, employment creation, increased agricultural production, export promotion (mainly raw materials and primary products), and population planning among the top priorities.

C. Prospective Studies and other Activities to be Financed

Although the GOP's Three Year Plan has not been published at this writing, there is no question as to the need for assistance in the area of feasibility studies and other activities related to projects and programs which may be undertaken in support of the country's overall developmental goals. In this context, NEDA has identified the studies listed below as being of sufficiently high priority to be undertaken during the time period of the Three Year Plan. Accordingly, these are the studies most likely to be considered for financing under the proposed loan, but others may well materialize within the next year or two, and eligibility is by no means restricted to the studies listed here.

- 1. Feasibility studies of flood control and irrigation systems, and related water resource matter of the Bicol River, Camarines Sur Province, Luzon; estimated cost - - - - - \$500,000
- 2. Feasibility studies of six additional provincial water supply systems (the cities of Zamboanga, Legaspi, San Fernando, Angeles, Cebu and Iloilo); estimated cost - - \$300,000
- 3. Feasibility studies of developing infrastructure support for land reform programs in the Cagayan Valley and Iloilo Province:
 estimated cost - - - -@ \$350,000 - - - - - \$700,000

4. Air Transport study, to include (or be followed by) specific feasibility studies of airports in selected areas; estimated cost - - - - - \$300,000 to \$500,000
5. Feasibility studies for various components of the Bicol Regional Development Plan (other than water resources), e.g., land transfer, compact farming, credit, transportation, electrification, livestock and fisheries and agribusiness possibilities; estimated cost - - - - - up to \$750,000
6. Feasibility study for the Liguasan Marsh Reclamation Project in the Cotabato River Basin of Mindanao (water resource management and land reclamation); estimated cost - - - - - \$250,000
7. Complementary studies and activities related to the Bicol Geothermal Power System (components being defined-cost estimates not available),

It is recognized that the total of the above cost estimates exceeds the proposed amount of the loan. However, it should be kept in mind that the individual priorities of the proposed studies have not been finalized, nor have work scopes for the studies been developed. Until these tasks have been accomplished, the cost estimates can be no more precise than as stated above. The estimated time period over which the proceeds of the loan will be committed in between two and three years.

III. IMPLEMENTATION OF ACTIVITY

A. Utilization of Previous A.I.D. Feasibility Studies Loan

In September 1967, A.I.D. and the GOP signed a Feasibility Studies Loan (No. 492-H-023) for \$2 million^{1/}. Annex 1 to this paper is a list of the studies financed under that loan and a statement of the status and/or disposition of those studies. Generally speaking the utilization rate of the earlier loan has been decidedly slower than desirable. Delays have been experienced at every stage from selection of studies to negotiating contracts, and the final study to be financed was contracted for as late as July 1972.

Nonetheless, the benefits derived and likely-to-be-derived from the studies financed should make a definite contribution to the development process in the Philippines. Of the eight studies undertaken at a total contracted cost of \$1,627,000, the two studies completed in the electric power sector (for a combined cost of \$398,000) have resulted in foreign loans amounting to \$64 million to finance projects in that sector. As a result of

^{1/}Subsequently reduced to \$1,730,000.

the pre-feasibility and feasibility study of provincial water systems (combined cost of \$424,000), A.I.D. is actively considering a loan of approximately \$7.5 million to assist in financing both the development of a needed institutional capacity, and the rehabilitation and expansion of six systems. The three studies being conducted in the area of water resource development and usage, while they are not completed at this writing, are considered to have good promise of resulting in "bankable" projects.

As to the capacity of the GOP to utilize the proceeds of the proposed loan in a timely fashion (i.e., from two to three years), there are several factors which should indicate an improved performance compared to the previous loan. GOP responsibility for implementing the previous loan was shared by PES and NEC, the two agencies which have now been merged to form NEDA, thereby consolidating in one agency a staff which now has valuable experience in carrying out the implementation function. Other GOP reorganization and consolidation measures should also contribute to a greater level of general efficiency in performing such tasks as evaluating proposals and negotiating contracts. The existence of a development plan (which was not present for much of the time under the previous loan) and the overall impetus to development being given by the Consultative Group are additional reasons to feel that the proposed loan will be utilized more rapidly and more efficiently than the first such loan.

B. Procedures

As stated earlier, NEDA will have overall responsibility within the GOP for implementation of this activity. The Agency or Development of the GOP having responsibility in the particular area of concern to be studied will act as the cooperating agency (with NEDA) on the individual study or studies which are approved for financing.

As a Condition Precedent to the disbursement of loan funds, NEDA will be required to submit, for review and approval by A.I.D., a detailed operational plan containing the procedures which will be followed in (1) selection studies and other professional services to be financed, (2) preparation of work scopes for such services, (3) selection of consultants, and (4) contracting for performance of the services. A tentative operational plan has been prepared and informally submitted, the essential provisions of which are given in the following paragraphs.

NEDA will determine priorities for the use of loan proceeds by identifying projects from national planning documents, sector surveys, industry studies and regional development schemes. The sector of the economy into which the project falls will be of high priority in the GOP's development plans. Project and other studies may be organized and proposed by entities of the government, by other government officials or by the private sector. In determining priorities for use of loan funds, the procedures outlined below will be followed:

-The entity proposing the study shall submit its application to NEDA.

-NEDA will ascertain the pertinence and relationship of the proposed study to other existing needs and to the country's overall economic development plans.

-If approved by NEDA, the application will be transmitted to A.I.D. for review and approval.

-If approved by A.I.D., the application will be returned to the proposing entity for appropriate action (preparation and approval of work scope, and solicitation of proposals),

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

-Prior to solicitation of proposals, NEDA and/or the cooperating agency will advise A.I.D, (i) as to whether prospective firms will be pre-qualified, and (ii) as to evaluation criteria to be used in prequalifying firms and/or ranking detailed proposals.

-After receipt of proposals, the cooperating agency will conduct the evaluation/selection process in accordance with the pre-determined selection criteria and procedures, and transmit to NEDA the summary of its selection process together with the list of consultants arranged in the order of ranking, and a recommendation to negotiate with the top-ranked consultant,

-NEDA will review the cooperating agency's evaluation procedures and the results of the evaluation, and forward same to A.I.D, with a recommendation and supporting justification,

-If approved by A.I.D., the approval will be transmitted through NEDA to the cooperating agency for implementation,

Upon selection and approval of the consultant, NEDA and the cooperating agency will jointly negotiate a draft contract with the consultant. The draft will be submitted for approval by A.I.D. Upon approval, NEDA or the agency will sign the contract with the consultant. NEDA will then secure whatever other GOP approvals may be necessary and release the contract to the cooperating agency for implementation.

C. Environmental Considerations

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

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

D. Income Distribution and Employment Considerations

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

IV. ECONOMIC CONSIDERATIONS

A. Setback and Recovery of the Economy

The severity of the impact to the economy of the July-August floods is seen in the sharp dip of the GNP growth rate to 3.5 percent for CY 1972, compared to 6.6 percent estimated for the twelve months ending in mid-1972. Government planners, perhaps optimistically, expect the growth rate for CY 1973 to bounce back to 7.0 percent. Population growth, at an estimated rate of 3 percent annually, continues to limit improvement in per capita income, although encouraging progress is being made in acceptance of family planning techniques.

Recovery and expansion of agricultural production will play a key role in the GNP performance for 1973. The picture is mixed at present, with severe drought in the south affecting the corn, coconut, banana and pineapple crops and with logging activity restricted in part to limit depletion of national forest resources. The prospects for sugar are bright. The staple crop, rice, is heavily dependent on weather conditions during the main July-November growing season, but hopes are for a recovery after two poor seasons.

Recovery from the flood damage has been an outstanding accomplishment of Philippine government agencies, individual farmers and private firms, together with large-scale relief and rehabilitation assistance from the U.S. and other countries. Repair of roads, railroad lines, irrigation and flood control structures is progressing, and farmers are working to restore their lands and to plant alternative crops.

Private investment has taken an upturn, and new government measures are aimed at stimulating greater investment and channeling it into such priority areas as oil exploration, manufactured goods for export, labor-intensive industries and industries dispersed outside the greater Manila area.

Private foreign capital has also flowed into the country's financial institutions. Particularly significant was a \$50 million 5-year loan to the Development Bank of the Philippines by an international consortium of banks including West European, Japanese and Australian institutions joining U.S. banks for the first time in such a venture. The DBP will relend the funds to small industries and agricultural enterprises. A new investment company with U.S. banking and insurance company resources has been established and two others are expected to follow. Finally, the Philippine stock markets have attracted new foreign investors in a boom which developed in late February and early March. Financiers from Hong Kong, Singapore and other Asian centers entered the markets as prices mounted after a long period of doldrums. Whether funds are largely speculative or will remain for longer-term investment remains to be seen.

B. Philippines' Balance-of-Payments Position and Debt Service Capacity

The following table (next page) summarizes the Philippines' BOP position in 1970-71, with projections for 1972-75.

By 1971, the BOP performance had improved markedly. For example, in 1969, foreign exchange reserves declined by \$136 million whereas 1970 showed an increase of \$23 million, and 1971 showed further increase of \$7 million. The trade balance

PHILIPPINES: SUMMARY BALANCE OF PAYMENTS AND CAPITAL REQUIREMENTS (1970-1975)
(In Million U.S. Dollars)

	Actual		Projected			
	1970	1971	1972 ^{a/}	1973	1974	1975
Exports	1,083	1,144	1,157	1,239	1,331	1,495
Imports	1,090	1,186	1,267	1,357	1,410	1,501
Trade Balance	-7	-42	-110	-118	-79	-6
Net Invisibles and Transfers ^{a/}	73	161	89	89	85	74
Debt Service	-359	-387	-397	-417	-438	-457
Amortization	-264	-301	-285	-294	-304	-312
Interest	-95	-86	-112	-123	-134	-145
Other Items ^{b/} , of which:	-130	-16	-3	-23	-14	-23
Net Direct Investment	-29	-6	-1	5	11	12
Increase in Net Reserves	-32	-27	-20	-25	-25	-30
Gross Inflow of Medium- and Long-Term Loan Capital	423	284	421	469	446	412
Official Assistance	30	51	140	180	200	200
Suppliers Credit	393	233	281	289	246	212
Net Inflow ^{c/}	159	-17	136	175	142	100
Net Transfer ^{d/}	64	-103	24	52	8	-45
Debt Service Ratio ^{e/}	26.8	27.6	28.1	27.7	27.2	25.5

^{a/} Excluding interest payments.

^{b/} Including net direct investment, net availments from IMF, changes in reserves, short-term borrowing and errors and omissions.

^{c/} Gross capital flows less amortization.

^{d/} Gross capital flows less amortization and interest payments.

^{e/} As a percentage of total foreign exchange earnings (exports plus invisibles receipts).

^{f/} 1972 projections do not reflect adverse trade developments in January/June 1972 and July/August flood disaster.

Source: IBRD--Current Economic Position and Prospects of the Philippines, May 10, 1972.

also improved during that period from a deficit of \$258 million in 1969 to much smaller deficits of \$7 and \$42 million in 1970 and 1971, respectively.

However, preliminary figures for the first half of 1972 show a deterioration in several respects. The trade figures indicate a deficit of \$109 million, compared to a 1971 first half-year surplus of \$26 million. Furthermore, export performance was poor with first half 1972 exports only about 91 percent of the first half level in 1971. In addition, the balance of payments performance has suffered due to a decline in the level of foreign private long-term capital inflows which began in 1971. The 1971 level of gross medium- and long-term private loan capital declined to \$233 million from a level of \$393 in 1970. The effect was an absolute negative net inflow of capital for 1971. The decline in private long-term loan capital inflows apparently reflects tighter controls over new debt, which is part of a program to improve the overall structure of external debt.

In spite of the deterioration of the Philippine trade balance, the foreign exchange reserve position avoided serious deterioration in 1972, but the next reserve position at the close of 1972 actually increased about 15% over the previous year, due mainly to a strong surplus in the "invisibles" account.

Over the next few years, the adverse trend in the GOP terms of trade is expected to continue, although at a slower rate. IBRD near term export projections are estimated at about 7 percent per annum for 1973-75, but significant export growth will depend on world copper prices, realization of increased nickel production, and the Philippines' ability to compete in the market with other LDC's for export manufactures. On the import side, the Philippines are faced with need to finance increased imports to achieve the projected 6.5 percent growth in GNP without resorting to short-term credits.

In view of the poor balance of payments performance in 1972, the high debt service burden of the Philippines appears even more formidable. The debt service ratio was 26.8 percent in 1970, 27.6 percent in 1971 before gradually declining to 25.5 percent by 1975. The Philippines' debt service ratio is very high by almost any standard and suggests extreme vulnerability to sudden declines in export earnings and/or declines in capital inflows both of which have occurred in the past. It should be noted that the declining debt service projections after 1972 are based on the IBRD assumption that a very substantial increase in long-term official assistance will be forthcoming to offset the lower private flows. The required increase is from actual official assistance level of \$51 million in 1971 to an average of about \$200 million annually from 1972-1975. The increased assistance should result in a substantial improvement in the structure and maturity of the Philippine debt.

Given the Philippines' debt service requirements, we feel that A.I.D.'s standard concessional terms -- 40 years, including a 10-year grace period, with 2 percent interest during the grace period and 3 percent thereafter, continue to be appropriate.

On such terms, and considering the longer term prospects for Philippine economic growth, including exports, the repayment prospects for the proposed \$2 million loan appear reasonable.

C. Impact on the U.S. Economy

As previously noted, services and related equipment and material having their source and origin in countries included in A.I.D.'s Geographic Code 941 will be eligible for financing under this loan. However, given our experience under the previous feasibility study loan, and in view of the types of studies likely to be financed under this loan, the bulk of the A.I.D. loan is likely to finance U.S. services. Therefore, we foresee no adverse impact on the U.S. economy.

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

<u>Project Description</u>	<u>Consultant</u>	<u>Amount</u>	<u>Date of Contract</u>	<u>Status</u>
1. Mechanized Rice Production Study-(Palawan)	American Factors Associates, Ltd.	\$135,269	2/12/68	Completed - No specific action taken to date
2. Development of Water Resources	U.S. Bureau of Reclamation	130,000	6/10/69	Scheduled completion 6/30/73
3. Magat River Multi-Purpose Project (irrigation, hydro-electric power, transmission lines)	U.S. Burec	212,500	5/19/71	Scheduled completion 6/30/73
4. Development of Rural Electrification Service Co-ops	National Rural Electric Cooperatives Assn.	254,975	12/2/69	Completed; A.I.D. is lending \$20 million to the GOP to assist in financing construction of apx. 36 rural electric co-ops, and is grant financing technical assistance to the National Electrification Administration for the further development and implementation of a national rural electrification program.
5. Power Grid Study (Mindanao)	Middlewest Service Company	143,063	7/25/69	Completed; study used as basis for ADB loan to GOP for power generation and transmission on the island of Mindanao.

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<u>Project Description</u>	<u>Consultant</u>	<u>Amount</u>	<u>Date of Contract</u>	<u>Status</u>
6. Provincial Water System Pre-feasibility survey	U.S. Dept. of Health, Education & Welfare	35,000	6/24/70	Completed; survey being followed by feasibility study of institutionaliz- ing a national plan for assisting provincial urban communities in improving water supply services, including technical and economic studies of six specific communities (see Item 7 below)
7. Provincial Water System Studies (2nd phase of #6 above).	Adrian Wilson Int'l Assoc., & James M. Montgomery Consulting Engrs, Inc. (Joint Venture)	389,000	5/6/71	Scheduled completion 6/73
8. Irrigation scheme- Laguna Lake Region for PES, NEC & LLDA	Hydrotechnic	327,200	7/7/72	Scheduled completion 2/7/74

Original Authorized Amount:	\$2,000,000
Deobligated (2/19/72)	<u>270,000</u>
Revised Loan Amount	\$1,730,000
Total Commitments	<u>1,627,007</u>
Unutilized	\$ 102,993

STATUTORY CHECKLIST

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended, incorporating amendments effected by the Foreign Assistance Act of 1971

APP.-Foreign Assistance and Related Agencies Appropriations Act, 1972/

1. COUNTRY PERFORMANCEA. Progress Towards Country Goals

1. FAA §§ 201 (b) (5), 201 (b) (7), 201 (b) (8), 208. Discuss the extent to which the country is:

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

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

(c) Increasing the people's role in the development process.

(d) Allocating expenditures to development rather than to unnecessary military purposes or intervention.

(a) Food production is top priority of Marcos Administration with goal of achieving self-sufficiency in rice and corn and accelerated production of livestock, poultry, fish, fruits and vegetables. Plans for expanded warehousing and distribution of the increased output of grains are being prepared and carried out with help from IBRD loan.

(b) See FAA 630(c) (1), page 3.

(c) The four-year agriculture program is increasing the productive capability of Philippine farmers. The Presidential aim for Community Development carries out programs at the barrio (village) level throughout the Philippines. A Decentralization Act providing more autonomy to the Province was enacted in 1967. Provincial Development Councils are operating or being established in fifteen pilot Provinces.

(d) More than 70% of the national budget is allocated to social and economic development. One-fourth of the budget goes to education.

(d) in other free countries' affairs.

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

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

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

(d) nearly 10% to agriculture and natural resources, and almost 20% to transportation and communications. Less than 15% of the budget goes for national defense.

(e) All local costs of the program will be financed initially by the GOP, and eventually by the beneficiary localities.

(f) The GOP, ever since its establishment as an independent nation in 1946, has patterned its government after that of the United States, adopting the same democratic principles and strongly supporting a free and open society. On September 22, 1972, President Marcos, citing a serious threat to their system from both the extreme left and right, invoked martial law and, ruling by decree, ordered an accelerated implementation of essential reforms long needed to improve the efficiency of the government, to reduce widespread crime and corruption, to speed development efforts aimed primarily at improving the social and economic well-being of lower income groups. Over the last five years the GOP has increased revenues through improved administration and new tax laws, the most recent being a stabilization tax imposed on traditional high level exports following the devaluation of the peso in 1970.

(g) As a result of the disastrous summer of 1972 floods, the Marcos' Administration has embarked on a large scale reconstruction program with the help of USAID. This program is directly meeting the needs of the devastated communities of Luzon. Included in the program are: a school reconstruction and textbook programs as well as on road building, irrigation and other infrastructure programs.

Other self-help development programs are rural electrification, water supply, irrigation, and rice production.

B. Relations with United States

1. FAA § 620(c). Is the government indebted to any U.S. citizen for goods or service furnished or ordered where: (a) such citizen has exhausted available legal remedies, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's, or a predecessor's unconditional guarantee?

2. FAA § 620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 20% of its enterprise's annual production during the life of the loan?

3. FAA § 620(e)(1). Has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposed or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under

1. No

2. Not applicable.

3. The Parity Amendment, an Ordinance appended to the Philippine Constitution on March 12, 1947, and effective by its terms until July 3, 1974, permitted U.S. citizens, as distinguished from other aliens, to acquire and hold "public agricultural land" and to operate public utilities with the same rights and privileges as citizens of the Philippines. The Supreme Court of the Philippines has held that the right of U.S. citizens to acquire and hold such property, to operate utilities and to export natural resources will expire on July 3, 1974. The GOP's intentions regarding this decision are unclear, but at present there is no indication that the GOP contemplates any act contravening FAA § 620(e)(1).

international law toward such citizen or entity? If less than six months has elapsed, what steps if any has it taken to discharge its obligations?

4. FAA § 620(j). Has the country permitted, or failed to take adequate measure to prevent, the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?

4. The GOP has taken all reasonable measures to protect U.S. property. On infrequent occasion when damage has occurred, proper compensation has been made without delay.

5. FAA § 620(l). Has the government instituted an investment guaranty program under FAA § 221 (b)(1) for the specific risks of inconvertibility and expropriation or confiscation?

5. Yes.

6. FAA § 620(o). Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international water? If, as a result of a seizure, the U.S.G. has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.

6. No.

7. FAA § 620(q). Has the country been in default, during the period in excess of six months, in payment to the U.S. on any FAA loan?

7. No.

3. FAA § 620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?

8. Diplomatic relations between the country and the U. S. have not been severed.

C. Relations with Other Nations and the U.N.

1. FAA § 620(i). Has the country been officially represented at any international conference when that representation included planning activities involving insurrection, or subversion directed against the U.S. or country receiving U.S. assistance?

1. No.

2. FAA § 620(a), 620(n). Has the country sold, furnished, or permitted ships or aircraft under its registry to carry to Cuba or North Vietnam items of economic, military, or other assistance?

2. No.

3. FAA § 620(i); App. § 108. What is the status of the country's U.N. dues, assessments; or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues, or arrearages.

3. The Philippines is not in default with respect to its dues, assessments or other obligations to the U.N. The Loan Agreement and disbursement procedures will ensure that loan funds are not used for payment of U.N. obligations.

D. Military Situation

1. FAA § 620(i). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?

1. No.

2. FAA § 620(s). What is (a) the percentage of the country's budget devoted to military purposes, (b) the amount of the country's foreign exchange resources used to acquire military equipment?

2. Annual defense budgets average less than 15% of the national budget. Approximately one-third of this amount is for maintenance of peace and order. Philippine foreign exchange resources used to acquire

Has the country spent money for sophisticated weapons systems purchased since the statutory limitation became effective?

military equipment are negligible. We know of no diversion of either development assistance or of PL 480 sales to military expenditures. We are not aware of any diversion of Philippine resources for unnecessary military expenditures.

II. CONDITIONS OF THE LOAN

A. General Soundness

Interest and Repayment

1. FAA § 201(d). 201(b)(2).
Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the interest rate during the grace period and during the period following the grace period? Is the rate of interest higher than the country's applicable legal rate of interest?

1. The rate of interest is considered reasonable and repayment of the loan with interest is within the financial capability of the borrower. Interest through the grace period will be at the rate of 2% per annum, and 3% thereafter. This rate is not higher than the applicable legal rate of interest in the Philippines.

Financing

1. FAA § 201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?

1. Financing is not considered to be available from other sources on terms comparable to this proposed loan.

Economic and Technical Soundness

1. FAA § 201(b) (2), 201(e).
Is the activity economically and technically sound?

1. The activity is economically and technically sound.

2. FAA § 611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonable firm estimate of the cost of assistance to the U.S., been completed.

Not applicable.

3. FAA § 611(b); App. § 101. If the loan or grant is for a water or related land resources construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. standards and criteria used in determining feasibility?

3. This activity per se does not involve water or related land resources. However, studies of such projects on programs to be financed under this loan will (i) include benefit/cost computations, and (ii) be based on relevant U. S. standards of feasibility.

4. FAA § 611(e). If this is a Capital Assistance Project with U.S. financing in excess of \$1 million, has the principal A.I.D. officer in the country certified as to the country's capability effectively to maintain and utilize the project?

4. The principal A.I.D. officer in the Philippines has so certified (see Annex IV).

B. Relation to Achievement of Country and Regional Goals

Country Goals

1. FAA § 207, 281(a). What is this loan's relation to:

(a) Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development.

1. There is no direct relationship between this loan and the institutions referred to.

(a) The GOP is trying to bring many political, economic and social reforms in conjunction with implementing an effective economic stabilization and flood rehabilitation program. The loan will directly provide imported machines and equipment for the expansion of the Philippines private sector which will be eligible for financing under this loan. Otherwise the direct relevance to this question is minimal.

(b) Enabling the country to meet its food needs, both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity.

(c) Meeting increasing need for trained manpower.

(d) Developing programs to meet public health needs.

(e) Assisting other important economic, political, and social development activities, including industrial development; growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development; and modernization of existing laws.

2. FAA § 201(b)(4). Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.

3. FAA § 201(b)(9). How will the activity to be financed contribute to the achievement of self-sustaining growth?

4. FAA § 201(1). If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material

(b) Studies financed under this loan will in every case contribute to overall development and may in specific cases result in increased agricultural production.

(c) No direct relationship.

(d) The loan will have no direct effect on public health programs.

(e) The loan will contribute to the country's economic development--and indirectly to the furtherance of social and political goals--by assisting in the identification and development of a variety of projects and programs which will benefit the economy. Whether such activities will have a direct bearing on the specific activities cited cannot at this time be determined.

2. This loan is being made in a multilateral context, and furthers the country's ability to achieve long-range development objectives through identification of development projects and areas.

3. See 2. above.

4. See 2. above.

resource requirements and the relationship between ultimate objectives of the project and overall economic development.

5. FAA § 201(b)(3). In what ways does the activity give reasonable promise of contributing to development of economic resources, or to increasing productive capabilities.

5. See 2. above.

6. FAA § 281(d), How does the program under which assistance is provided recognize the particular needs, desires, and capabilities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.

6. This loan is not related to these ends.

7. FAA § 601(a). How will this loan encourage the country's efforts 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?

7. See 2. above.

8. FAA § 202(a). Indicate the amount of money under the loan which is available to encourage economic development through private enterprise; available to intermediate credit institutions or other borrowers for use by private enterprise; and being used to finance procurement from private sources.

9. FAA § 611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

8. It is anticipated that the total amount of the loan will be used to finance procurement from private sources.

9. No legislative action is required.

Regional Goals

1. FAA § 619. If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?

1. Not applicable.

2. FAA § 209. If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?

2. The loan is not directed at regional problem. However, it is being furnished in the context of multilateral aid to the Philippines by a number of donors including Japan, IBRD and the ADB.

Relation to U. S. Economy

Employment, Balance of Payments,
Private Enterprise

1. FAA §§ 201(b)(6); 102, What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payment position.

1. Although goods and services of Code 941 source and origin are eligible for financing under the loan, it is anticipated that the actual procurement of non-U. S. goods and services will be minimal.

2. FAA §§ 612(b); 636(h). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign-owned currencies are utilized in lieu of dollars?

2. All local costs of contractual and other services will be financed by the GOP from their own resources.

3. FAA § 601(d); App. § 109. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U. S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U. S.? If so, has the required waiver been obtained.
 4. FAA § 608(a). Provide information measures to be taken to utilize U. S. Government excess personal property in lieu of the procurement of new items.
 5. FAA § 602. What efforts have been made to assist U. S. small business to participate equitably in the furnishing of commodities and services financed by this loan?
 6. FAA § 621. If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they particularly suitable; are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?
 7. FAA § 611(c). If this loan involves a contract for construction that obligates in excess of \$100,000, will it be on a competitive basis? If not, are there factors which make it impracticable?
3. See Item 1 above.
 4. Excess property is not generally appropriate or practical for use by consultants performing the nature of services contemplated for financing under this loan.
 5. Procurement of services (and related goods) will be carried out according to procedures of advertising and publicity which will afford U.S. small business the opportunity to participate equitably.
 6. Services to be financed under this loan will generally be performed by private firms (or individuals) on a contract basis. To the extent Federal agencies may be utilized, it will be in cases where it is agreed that such agency represents for a selected activity the most practical source of expertise and therefore not competitive, under the circumstances, with private enterprise. Such services will be scheduled so as not to interfere unduly with domestic programs.
 7. Not applicable.

8. FAA § 601(b). Describe the totality of effort by the President in host country to encourage and facilitate participation of private enterprise in achieving the purposes of the Act.

8. Private enterprise is being utilized to the maximum extent practicable under this loan.

Procurement

1. FAA § 604(a). Will commodity procurement be restricted to U. S. except as otherwise determined by the President?
2. FAA § 604(b). Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U. S. at the time of purchase?
3. FAA § 604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U. S. when the domestic price of such commodity is less than parity?
4. FAA § 604(f). Will the Agency receive the necessary pre-payment certifications from suppliers under a commodity import program agreement as to description and condition of commodities, and on the basis of such, determined eligibility and suitability for financing?

1. Procurement of services and related commodities under this loan will adhere to the President's directives regarding the untying of A.I.D. procurement as set forth in applicable A.I.D. Regulations.
2. No.
3. No.
4. Not applicable.

D. Other Requirements

1. FAA § 201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?
2. App. § 106. Does the loan agreement provide, with respect to capital projects, for U. S. approval of contract terms and firms?

1. Yes.
2. Yes.

3. FAA § 620(k). If the loan is for construction of a production enterprise, with respect to which the aggregate value of assistance to be furnished will exceed \$100 million, what preparation has been made to obtain the express approval of the Congress? 3. Not applicable.
4. FAA § 620(b), 620(f); App. § 109(b). Has the President determined that the country is not dominated or controlled by the international Communist movement? If the country is a Communist country (including, but not limited in FAA § 620(f) and the loan is intended for economic assistance, have the findings required by FAA § 620(f) and App. § 109(b) been made and reported to the Congress? 4. The Philippines is not dominated or controlled by the international Communist movement.
5. FAA § 620(h). What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries? 5. The loan agreement will contain implementation controls prohibiting such use.
6. App. § 110. Will any funds be used to finance procurement of iron and steel products for use in Vietnam other than as contemplated by § 110? 6. No.
7. FAA § 636(i). Will any part of this loan be used in financing non-U.S. manufactured automobiles? If so, has the required waiver been obtained? 7. No.
8. FAA §§ 620(a)(1) and (2), 620(p). Will any assistance be furnished or funds made available to the government of Cuba or the United Arab Republic? 8. No.
9. FAA § 620(g). Will any part of this loan be used to compensate owners for expropriated or nationalized property? If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted? 9. No.

10. FAA § 201 (f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?
10. A portion of the services to be performed can be expected to be accomplished through direct hire personnel and subcontracts with private firms in the recipient country.
11. App. § 104. Does the loan agreement bar any use of funds to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces?
11. Yes. The loan agreement will cover this requirement.
12. MAA § 901.b. Will the loan agreement provide for compliance with U.S. shipping requirements, that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately owned U.S.-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for U.S. flag vessels?
12. Yes. The loan agreement will cover this requirement.
13. App. § 102. Have obligations for engineering and architectural fees and services over \$25,000 on any one project been reported to Congress bi-annually?
13. Yes.
14. FAA § 481. Has the President determined that the recipient country has failed to take adequate steps to prevent narcotic drugs produced or procured in, or transported through, such country from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents or from entering the United States unlawfully?
14. No.
15. App § 111. Is the loan being used to transfer funds to world lending institutions under FAA §§ 209(d) and 251(h)?
15. No.

16. App. § 501. Are any of these funds being used for publicity or propaganda within the United States?

16. No.

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

17. The Philippines is not an excess currency country.

18. FAA § 604(d). Will provision be made for placing marine insurance in the U.S. if the recipient country discriminates against any marine insurance company authorized to do business in the U.S.?

18. Yes. An appropriate provision will be included in the loan agreement.

DRAFT
CAPITAL ASSISTANCE LOAN AUTHORIZATION

Provided from Development Loan Funds
Philippines: Second Feasibility Studies Loan

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

1. Interest Rate and Terms of Repayment

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

2. Currency of Repayment

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

3. Other Terms and Conditions

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

- (c) The loan shall be subject to such other terms and conditions as A.I.D, may deem advisable.

Date

CERTIFICATION PURSUANT TO SECTION 611(e) OF
THE FOREIGN ASSISTANCE ACT

The principle officer of the A.I.D. Mission to the Philippines signed the required determination pursuant to Section 611(e) of the Foreign Assistance Act on April 30, 1973, as advised by State Department cable no. Manila 5003. Copies of the actual signed determination will be available upon request from Office of Capital Development, Bureau for Asia, Agency for International Development.