

ACTION MEMORANDUM FOR THE DIRECTOR

THROUGH: Mr. Richard A. Johnson
Deputy Director

DATE: JAN 29 1990

FROM: John A. Patterson
Associate Mission Director, DRM

SUBJECT: Philippine Assistance Program Support (PAPS) Project
(492-0452): Project Authorization

ACTION REQUESTED: Your approval of the Project Paper for the PAPS Project is requested. The life-of-project (LOP) funding is \$25.0 million in grant funds. The planned FY 1990 obligation level is \$11.0 million in funds provided under the FY 1990 Multilateral Assistance Initiative.

DISCUSSION: The five-year PAPS Project will provide assistance to the Philippines to develop and implement high-priority development projects under the Philippine Assistance Program (PAP). The project has three components. Two components, Studies and Operations Support, will be funded under a bilateral agreement. The third component, the Private Sector Pre-Investment Facility (PIF) will be obligated through a cooperative agreement between a non-government organization and USAID. The Studies Component (\$17.0 million) will provide funds for a variety of feasibility and design studies for projects under the PAP, including Economic Development Zone projects, major nationwide infrastructure efforts, small projects emanating from regional or local levels and issues and sectoral studies. The Operations Support Component (\$2.75 million) will finance technical assistance, limited commodities and selected institutional development activities for the Committee on Official Development Assistance and Coordinating Council of the PAP. The PIF Component (\$5.0 million) will provide co-financing for feasibility studies for potential private sector investments.

The FY 1990 obligation of \$11.0 million will include: (1) \$9.0 million for the Studies and Operations Support Components under a bilateral agreement, and (2) \$2.0 million for the PIF Component under a cooperative agreement between the Economic Development Foundation (EDF) and USAID. Both agreements are expected to be executed in January 1990. A Memorandum of Understanding on the PAPS effort was signed by Acting AID Administrator Mark L. Edelman and Secretary of Finance Vicente R. Jayme on November 9, 1989, during President Aquino's visit to the United States.

Mission Review. The Mission Review for the PAPS Project was held on October 25, 1989. Principal concerns raised and recommendations made include the following:

- (1) Funding limits under PIF. The participants discussed the concern of whether or not the maximum amount for each subproject (\$250,000) and the overall level for the PIF component (\$5.0 million) are adequate, especially for power development. While it was agreed that the subproject ceiling may not attract certain investors such as those considering expensive power investments, the decision was made to retain the lower level which is

comparable to what other entities (Trade and Development Program and a centrally funded USAID project) are providing. Furthermore, the ceiling would permit more investors to take advantage of the facility. The ceiling will be reviewed during implementation and, if desirable, will be adjusted.

(2) USAID participation in PIF. Related to the discussion on appropriate PIF co-financing levels, the Review addressed the need for a mechanism whereby USAID could participate in reviewing progress and selected features of the PIF program on a regular basis. The decision was to use the cooperative agreement mechanism rather than a regular grant so that USAID can participate in future decisions or adjustments in the PIF mechanism. USAID involvement will include the review of selected projects to ensure consistency with AID statutory requirements, potential adjustments in co-financing level, criteria modifications, and study financing mechanisms.

(3) Restriction on location of projects proposed for study. It was agreed that the primary criterion on location should read as follows: The projects to be analyzed should focus particularly, but not exclusively, on areas outside the National Capital Region.

(4) Inclusion of PIF language in Project Agreement. The participants agreed that the Project Agreement should include a commitment by the GOP for \$5.0 million to be obligated for PIF under a separate mechanism.

A concern identified in discussions with EDF was the criteria for the eligibility of a privately owned corporation or partnership for participation, especially where one of the associates was not legally organized under the laws of the U.S. or the Philippines. Criteria has been developed using Handbook 1B, Policy, as a basis (Tab E). The criteria developed would allow the participation of a firm with Special Free World country (Code 935) partners provided that the percentage held by such partners was no larger than that held by the minority U.S. or Philippine joint venture partner.

The Project Paper has also been revised to provide for the 25% GOP counterpart funding required for the SI/MAI funding.

STATUS OF NOTIFICATION AND ALLOWANCE: Per State 13748 of January 13, 1990, the Congressional Notification (CN) expired without objection on December 30, 1989 (Tab D). USAID has requested the allowance for an early FY 1990 obligation.

AUTHORITY: Under Delegation of Authority No. 652, you have authority to approve the project paper and authorization.

RECOMMENDATION: That you approve the PAPS Project by signing below and on the Project Data Sheet (Tab A), the Authorization (Tab B), and the Gray Amendment Certification (Tab C).

APPROVED: _____

MB

DISAPPROVED: _____

DATE: _____

JAN 29 1990

Attachments:

- Tab A - Project Data Sheet
- Tab B - Project Authorization
- Tab C - Gray Amendment Certification
- Tab D - State 13748
- Tab E - PIF Participation Criteria
- Tab F - Project Paper

Clearances:

- OCP:RJordan _____ (draft)
- PESO:BCornelio _____ (draft)
- OFM:JCStanford _____ (draft)
- ORAD:KAPrussner _____ (draft)
- OD/PE:PRDeuster _____ (draft)
- DRM/DI:GMimhoff _____ (draft)
- OLA:LChiles _____ (draft)

PROJECT AUTHORIZATION

Philippines

Philippine Assistance Program Support

A.I.D. Project No. 492-0452

1. Pursuant to the section entitled "Multilateral Assistance Initiative for the Philippines" in Title II of Public Law 101-167 and Section 103 of the Foreign Assistance Act of 1961, as amended (the "FAA"), and in accordance with the authority delegated to me in Delegation of Authority No. 652, I hereby authorize the Philippine Assistance Program Support Project (the "Project") for the Republic of the Philippines (the "Cooperating Country") involving planned obligations of not to exceed \$25,000,000 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, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is approximately five years from the date of initial obligation. The initial obligation of the Project is subject to the expiration of the Congressional Notification period.

2. The Project will assist the Philippines to develop and implement high priority development projects under the Philippine Assistance Program (PAP), through the provision of technical assistance, commodities and other operational support. The Project will also fund a private sector pre-investment facility to promote investment, especially in and around the Economic Development Zones. The private sector portion of the Project may be obligated through a grant agreement with a non-governmental organization.

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 conditions, together with such other terms and conditions that A.I.D. may deem appropriate:

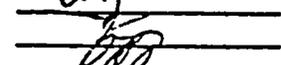
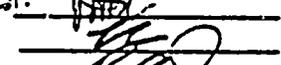
Source and Origin of Commodities and Nationality of Services.
Commodities financed by A.I.D. under the Project shall have their source and origin in the Cooperating Country or in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country or 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.

4. Other. The Cooperating Country shall covenant to use its best efforts to facilitate the establishment and operation of the Project's private sector pre-investment program to promote investment, especially in and around the Economic Development Zones.

By: Malcolm Butler
Malcolm Butler
Mission Director
USAID/Philippines

Date: JAN 29 1990

Clearances:

<u>Name</u>	<u>Initial</u>	<u>Date</u>
OCP:RJordan		1/8/90
PESQ:BCornelio		1-5-90
OFFPVC:CBillings (Actg.)		10/30/87
OPHN:WHJohnson		10/30/87
ORAD:KPrussner		1/5/90
OD/PE:PRDeuster		1/4/90
DRM:JAPatterson		1/4/90
CO:JCStanford		1/5/90
OLA:LChiles		1/12/90
OD:RAJohnson		1/28/90