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Report No. P-1776-PH

REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO
THE REPUBLIC OF THE PHILIPPINES
FOR A
SECOND LIVESTOCK PROJECT

March 4, 1976

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CURRENCY EQUIVALENTS

US \$1.00	Pesos 7.50
Pesos 1,000	US \$ 133.00
Pesos 1 million	US \$ 133,000

FISCAL YEAR

In the Philippines the Fiscal Year covers the period July 1 to June 30.

REPORT AND RECOMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED
LOAN TO THE REPUBLIC OF THE PHILIPPINES FOR
A SECOND LIVESTOCK PROJECT THROUGH THE
DEVELOPMENT BANK OF THE PHILIPPINES

1. I submit the following report and recommendation on a proposed loan to the Republic of the Philippines for an equivalent of \$20.5 million. The loan would have a term of 14-1/2 years, including 5-1/2 years of grace and an interest rate of 8.5 percent per annum. \$19.8 million of the proceeds of the loan would be relent to the Development Bank of the Philippines (DBP) on the same terms as those of the Bank loan for on-lending to specific livestock enterprises. The balance would be used by the Government to help finance livestock research and a feed analysis laboratory.

PART I - THE ECONOMY 1/

2. The most recent Economic Report - "Current Economic Position and Prospects of the Philippines" (No. 568-PH of November 7, 1974) was circulated to the Executive Directors on November 11, 1974. A basic economic mission visited the Philippines in April/May 1975 and is now finalizing its report; the discussion below includes the findings of the mission. Annex I of this report contains country economic data.

3. During the 1960s, the economy grew in real terms at the rate of 5-6 percent per annum. However, the rate of growth was less than the level that might have been achieved if the considerable natural and human resources of the Philippines had been exploited more effectively. Moreover, the benefits of growth were not distributed widely and unemployment rose. Low levels of taxation resulted in inadequate public investment in necessary infrastructure and social services. Relatively weak export performance, combined with a failure to reduce the import dependence of domestic industry, resulted in a steady deterioration in the balance of payments position.

4. During 1970-72, the authorities adopted policies of monetary and fiscal restraint in order to lay a firm basis for future growth. With assistance from the Consultative Group, they succeeded in improving substantially the maturity structure of the external public debt. Real GNP during that period increased at about 5 percent a year. In 1972, following severe floods, the President began a series of social and economic reforms in the country including an agrarian reform program, tax reforms, and an administrative reorganization. These programs are beginning to show results.

1/ The paragraphs in this part, except for paragraphs 13 and 14 which have been updated, are the same as those in the President's Report on the Industrial Investment Credit Project (Report No. P-1726-PH) dated December 3, 1975.

5. In 1973 there was a sharp increase in the level of economic activity in the Philippines. This upsurge was led by the international commodity boom, which resulted in higher export incomes in the Philippines, a strong recovery in agricultural and industrial production for the domestic market and an expansion in public and private investment. The growth in real GNP doubled to 10 percent.

6. Like most countries, the Philippines was profoundly affected by the tumultuous events in the world economy that began with the jump in the prices for food and petroleum in late 1973. With international trade the equivalent of almost half of its GNP, the Philippines proved quite vulnerable to the impact of world inflation, the increase in oil prices and the prolonged recession in the industrialized countries. This sequence of events has temporarily frustrated the Government's attempt to accelerate the rate of development, and in 1974 GNP increased by only about 6 percent in real terms. While adverse effects of the recession were cushioned somewhat in 1974 by a modest improvement in the external terms of trade, the Philippines has been even more seriously affected in 1975 by the continued rise in import prices and reduced demand for Philippine exports. The real growth of GNP in 1975 is estimated to have been at about the 6 percent rate of the previous year. Improvement in the growth performance in 1976 can be expected only if recovery takes place in the economies of the Philippines' main trading partners.

7. Agricultural production has grown at an average rate of 3.2 percent per year during the 1970s, a period which has been affected by unusually adverse weather conditions. Rice production increased by 25 percent in 1973-74, but due to serious damage by typhoons, it grew by only 1 percent in 1974-75, and the Government had to import 200,000 tons in the first half of 1975 to ensure adequate stocks. However, initial indications are that the outlook for rice production in 1975-76 is bright. The Government is giving the highest priority to increasing agricultural production and has initiated a number of programs designed to expand the use of fertilizer, irrigation and supervised credit. It has also intensified efforts to expand social services needed in rural areas, including rural electrification, health and family planning services as well as small-scale road and irrigation projects.

8. Although progress has been slower than initially planned, the Government has moved ahead with its agrarian reform program for the nation's one million tenant farmers who grow rice and corn. By mid-1975, land transfer certificates had been issued to nearly 200,000 tenants and progress had been made on land valuations and the transfer of titles. The Government has raised the cash portion of the compensation package to landlords to reduce their resistance to land reform, but strong administrative efforts will be necessary to ensure continued progress in the implementation of the program.

9. Industry accounts for almost 30 percent of net domestic product, one-third of total fixed investment and 15 percent of total employment. Industrial production, which grew by 12 percent in 1973, was adversely

affected in 1974 by the world-wide economic slowdown and grew by only 3.6 percent in 1975. This decline is primarily a result of depressed demand for Philippine exports on the part of the country's main trading partners and the concomitant slowdown in the rate of economic growth in the Philippines. Nonetheless, the long-term prospects for industrial growth are favorable because of the natural and human resource endowment of the Philippines and a very active private sector.

10. The Government has made significant progress in increasing public investment. The ratio of public investment to GNP is currently about 3 percent compared with 1.8 percent in FY72. The Government has also implemented a series of long needed tax reforms and improvements in tax administration. These reforms, aided by the increased economic activity, the boom in export incomes, and domestic inflation, resulted in a 36 percent increase in national government tax revenues in FY73, and an estimated 47 percent in FY74. As a result, the ratio of national government tax revenues to GNP has increased from an average of 9 percent in recent years to an estimated 12.3 percent in FY74.

11. In the latter part of 1973, inflation emerged as a major problem in the Philippines and in 1974 consumer prices rose by almost 40 percent. The rise was caused by the large increase in liquidity that came with the export boom in 1973-74, and by a number of cost-push factors, including the higher rate of world inflation. To deal with this problem, the Government adopted contractionary monetary and fiscal policies, and attempted to reduce the impact of inflation on consumers by subsidizing such essential goods as wheat, imported rice, and cooking oil. As a consequence of the Government's measures, the annual rate of inflation decreased to less than 20 percent at the end of 1974 and less than 10 percent in 1975.

12. The rapid inflation in 1974 exacerbated the decline in real wages which had begun in 1970. Overall, there was a decline of about 20 percent in real wages during 1974. In order to offset the deterioration of real wages in urban areas, the Government increased the salaries of Government employees and directed private firms to grant emergency cost of living adjustments to employees earning less than ₱ 600 per month. Nevertheless real urban wage incomes declined and reduced the demand for manufactured products, which contributed to the poor performance of the manufacturing sector in 1974. The depression in the urban areas was partly offset by the improvement in rural incomes that stemmed from continued high prices for agricultural commodities.

13. On the external side, the Philippine balance of payments benefited considerably from the international commodity price boom during 1973. High prices for the country's chief exports, including coconut products, sugar, copper and wood products resulted in a 70 percent boost in export earnings and a balance of payments surplus of about \$670 million. Since mid-1974 the external trade position has deteriorated, due to the sharp increases in the prices of oil and other imports, less favorable prices for Philippine exports, and reduced volume of some exports resulting from

the recession in the economies of the Philippines' main trading partners. As a result, the overall balance of payments surplus fell to about \$100 million in 1974, and a deficit of about \$400 million was recorded in 1975. International reserves stood at about \$1.1 billion at the end of 1975, the equivalent of three months imports.

14. The outlook for 1976 is for exports to increase by about 12 percent in real terms on the assumption that there will be some international economic recovery. Imports will need to grow by about 7 percent in real terms in order to maintain the growth of the economy. Due to a modest deterioration of the terms of trade, the current account deficit may reach about \$1.0 billion compared to \$860 million in 1974. Medium and long term capital inflows are expected to finance most of this deficit, producing an overall balance of payments deficit of about \$200 million. Such a deficit can be managed without serious pressure on reserves through utilization of IMF oil facility and by short-term foreign borrowing by the Central Bank.

15. The overall level of debt of the Philippines is expected to remain within reasonable limits, as the ratio of debt service payments to exports and non-factor services would average about 16-17 percent during the rest of this decade. At present, the Bank/IDA share in total debt outstanding is about 10 percent and its share in debt-service is about 4 percent. These shares are expected to increase somewhat in the years ahead.

16. Foreign assistance is expected to continue to be of major importance in helping to finance the larger investment expenditures which will be necessary for the country's development. In order to ensure that disbursement of external assistance reaches levels commensurate with the level of development expenditures which will be required during the latter part of the decade, total commitments will need to be maintained in real terms at least at the level of about \$500 million which was achieved in 1974. The Consultative Group for the Philippines at its meeting in Paris on October 1, 1975, agreed that it would be reasonable for the Philippine Government to seek aid commitments of about \$600 million during 1976.

Growth Prospects

17. Despite the slowdown in the growth of the economy which is primarily a result of worldwide economic conditions, the Government remains committed to regaining the growth momentum which began in 1973 to provide for a continued increase in incomes and employment. High priority must be accorded to expanding employment opportunities - in the short-term as well as the long-term - because unemployment and underemployment are still high, and the labor force continues to grow at 3 percent a year.

18. Priority must also be given to expanding food production for the domestic market, to expanding industrial export production and to accelerating development of local energy resources. The difficulties experienced during the last two years in importing sufficient quantities of food at reasonable prices, especially cereals, have increased the Government's resolve to

achieve self-sufficiency in rice and corn as soon as possible. The Government rightly recognizes that the increased cost of petroleum and other imports cannot be financed indefinitely by borrowing abroad, and it is actively encouraging both local and foreign investors to expand the productive capacity of export industries and to undertake major new import-replacing investments. Because it will take time for these investments to have an impact on the balance of payments, the Government is seeking increased support from the international financial community to help carry out its development program and to ease the adjustment to higher petroleum and other import prices. Because of the substantial easing of the external debt burden which has taken place in the last several years, the Philippines now has the capacity to borrow externally larger amounts of capital in support of its development program.

19. Given the likely availability of resources and the expected growth in various sectors, it is reasonable for the Government to plan for a longer term growth in GNP of about 7 percent a year in real terms. To achieve this objective, increased investments will be needed in a wide range of industries. Public investments also need to be increased. A new public infrastructure program is being prepared, and the Government is putting emphasis on developing nuclear and indigenous power sources and on irrigation, feeder roads and other projects to support increased food production. The Government has made considerable progress in recent years in building up the capacity of public sector agencies to prepare and execute projects. However, there will be a need for continued efforts to strengthen this aspect of administration. The ratio of public investment to GNP will need to rise from the present level of 3 percent to about 5 percent by 1980. To support the level of investment, the Government will need to intensify its tax efforts so that the ratio of national taxes to GNP rises from its present level of 11-12 percent to 14 percent by 1980.

20. The Government's ambitious development program will continue to require foreign resources in addition to the capital which would become available for the financing of the foreign exchange component of development projects. Some financing of local costs is justified, especially for projects of economic and social importance which need limited amounts of foreign exchange.

PART II - BANK GROUP OPERATIONS IN THE PHILIPPINES

21. The Philippines has received 32 Bank loans and three IDA credits totalling \$791.2 million, net of cancellations. About 36 percent of the Bank/IDA lending, \$293 million, has been for infrastructure projects in power, transportation, and water supply and \$38 million has been for population and education. Of the remainder about \$216 million has been for agriculture and about \$250 million for industry. There has been a marked improvement in the way Bank financed projects in the Philippines have been executed in the last three years, compared with experience in the 1960s, when shortages of peso counterpart funds combined with poor administration

to cause serious problems. All these projects are now going reasonably well. Annex II contains a summary statement of Bank loans, IDA credits and IFC investments as of January 31, 1976 and notes on the execution of on-going projects.

22. The Bank's lending program has been designed to continue to support the Philippine development effort with its particular emphasis on agriculture and infrastructure. Shortages of domestic revenues led to low investment for these purposes in the past. The last three years have seen major changes which have helped to overcome these constraints and both the ambitious Philippine development program and the Bank's lending program have been designed to make good past neglect and to meet future needs. Commitments in FY74 amounted to \$165.1 million, and in FY75 \$208 million compared to an average of about \$30 million a year in the preceding five years.

23. Two loans, one of \$42 million for the Magat River Multipurpose Project and one of \$75 million for the Industrial Investment Credit Project, have already been approved by the Executive Directors in FY76. In addition to this project and the proposed Third Education Project, other loans for fisheries, grain storage, urban development and irrigation may be ready for Board consideration in FY76.

24. IFC has made commitments in the Philippines totalling \$76.2 million for investments in 13 companies in the fields of development banking, power, telecommunications, ceramic tiles, paper, petroleum products, nickel mining and refining, chemicals and synthetic fibers. Of these investments, as of January 31, 1976, \$18.9 million had been sold, \$0.4 million cancelled and \$3.4 million repaid, leaving a net portfolio of \$53.5 million. On the same date all commitments were fully disbursed. Preliminary proposals have been received for an aluminum smelter and other projects in the pulp and paper, dinnerware, metal alloys and ship-building fields.

PART III - THE LIVESTOCK SECTOR

25. The performance of the agricultural sector is crucial, since problems of poverty and income distribution are particularly acute in the rural areas. Of the 15 million people in the bottom 40 percent of the income scale, 12 million live in the rural areas. The Government is attempting to deal with the problems by undertaking agrarian reform, increasing institutional support to agriculture to raise productivity of the small farmers and by encouraging diversification. Development of the livestock sub-sector is important in the effort to diversify agricultural production and to raise the incomes of small farmers. Currently, the livestock sub-sector contributes about 18 percent of total agricultural output and about 5 percent of gross domestic product.

26. The per capita intake of meat products has not increased significantly over the past decade, and in recent years may even have decreased as a result of relatively high meat prices. Although demand has in part

shifted to cheaper fish products, prices of these products have also increased substantially so that the total consumption of both meat and fish has decreased since 1970. With the projected recovery in the growth of urban incomes, demand for livestock products could grow at about 6 percent a year in the future. Most of the demand over the next decade will probably continue to be for pork and poultry meat, although the relative importance of beef will continue to increase. To limit the extent to which this anticipated growth in demand for livestock products is met by imports, to facilitate price stabilization for livestock products and to increase small farmer incomes, the Government has been putting special emphasis on livestock development.

27. The major constraints on the growth of the livestock industry in the past have been the lack of long-term credit, inadequate livestock extension services and the lack of higher quality feeds. In order to help in alleviating these problems, the Government requested the Bank in 1970 to finance a first livestock project and the proposed loan is expected to continue the support provided under Loan 823-PH to meet the requirements of a growing livestock industry.

28. The first loan of \$7.5 million, made in 1972 was for: (a) a program of livestock development in specified areas, carried out by the Development Bank of the Philippines (DBP); it was assigned to provide assistance to some 1,450 small and medium size pig, poultry and integrated coconut/beef cattle farms, 25 hill beef cattle ranches, and 3 slaughterhouses; and (b) technical services for DBP and livestock research. After a slow start, caused largely by delay in recruitment of technical advisors, the project is now progressing satisfactorily, and all farm/ranch funds have been committed. Other Bank assistance over the years for livestock development in the Philippines has been provided through two Rural Credit Projects (Loans 607-PH and 1010-PH), administered by the Central Bank of the Philippines and carried out by the rural banks; about 8 percent of funds under Loan 607-PH and 6 percent so far under Loan 1010-PH have been lent to livestock farmers, mainly for pig and poultry development.

PART IV - THE PROJECT

Description of the Project

29. The proposed project would: a) continue to assist the Philippines to increase domestic production of livestock products by providing funds to DBP for onlending to livestock producers particularly for smallholder pig and poultry operations; b) improve the technical services provided to DBP's sub-borrowers; c) provide for applied research and trials on specific livestock production problems and assist with the establishment of a feed quality control system; d) assist the country to upgrade municipal slaughterhouses which need to be rehabilitated and improved to meet higher standards. Specifically, the proposed project would help finance about 1,850 pig farms, 460 poultry farms, 200 small-scale beef cattle farms, 440 integrated coconut cattle farms (where coconut and cattle are developed within the same farms), 60

hill beef farms (beef cattle development on hilly pastureland), 10 municipal slaughterhouses, and supporting technical services, training and research. The loan would finance fixed investment costs and incremental working capital for both farm development and slaughterhouses.

30. The project was prepared by DBP. A Bank mission appraised the project in April/May 1975 and negotiations were held in January, 1976. The leader of the Government negotiating team was Ambassador Eduardo Z. Romualdez. The Appraisal Report (No.1070-PH) on the proposed project is being circulated separately to the Executive Directors. Annex III provides a loan and project summary.

Major Objectives of the Project

31. The project would support Government objectives of increasing livestock production by helping alleviate existing constraints through the provision of credit, better research and extension and a system for improving animal feeds. In designing the project, attention has been given to meeting the needs of smaller farmers and the rural poor, and it is estimated that about 80 percent of the direct and indirect beneficiaries of the project presently have per capita income of less than \$140. The component for development of backyard cattle farms (maintaining a few heads of beef or dairy cattle on small farm plots) has considerable potential for increasing the production and incomes of small farmers.

Project Execution

32. As in the first project, the credit component of this project will be executed by DBP, a wholly Government-owned development bank which operates in all sectors of the economy. A thorough analysis of DBP's overall capabilities and financial position was provided in the President's Report for the Second Industrial Investment Credit Project (See R75-239) reviewed by the Executive Directors at a meeting on December 16, 1975. Over the years, DBP has administered a number of Bank assisted projects in the industrial, shipping and agricultural (grain processing and storage, fishing and livestock) sectors and the implementation of these projects has been satisfactory. The Livestock and Poultry Group, within the Agricultural Projects Department of DBP, would have the responsibility for implementing the proposed project. The feed quality control and research components would be the responsibility of the Bureau of Animal Industry (BAI) in the Department of Agriculture.

The Project Area

33. Under the First Project, it was agreed to limit sub-loans to specific areas of the country (Central and Southern Luzon, North and South Mindanao and Mindoro and Masbate islands) to ensure that DBP would have the capacity to process and service sub-loans. However, DBP's loans processing and supervision capabilities have improved as more branches and agencies have been opened; therefore, this limitation under the First Project has been relaxed and will be removed under the proposed project (Para B.1 of Schedule 5 to the Loan Agreement).

Training, Technical Services and Research

34. The Livestock and Poultry Group of DBP was established under the First Livestock Project and has since grown in strength and expertise. However, DBP does need to improve further its capacity to provide technical services to livestock sub-borrowers, undertake promotional work and conduct monitoring programs. To assist and train DBP's field staff in these matters, it would continue to employ a cattle production specialist and would engage a farm monitoring specialist (Section 3.04 of the Loan Agreement). DBP **would** also continue to conduct a program to ensure that an adequate number of its staff are trained to carry out its livestock development program (Part B of Schedule 2 to the Loan Agreement).

35. To support the livestock development program, the Government would employ four short term specialists to undertake research in the areas of pig and poultry nutrition, the use of by-products by ruminants and backyard cattle production systems. To supplement and back up the work of the short term consultants, the Government would make arrangements to carry out a program of applied research on pig and poultry nutrition under terms of reference acceptable to the Bank and shall assist in financing the execution of this program with a grant of not less than the equivalent of \$150,000 (Section 3.07 of the Loan Agreement). The research conducted under the project is expected to make an important contribution towards improving feed products which have in the past been a constraint on increasing livestock production. In addition, the Government would establish an effective feed quality control system, including construction and equipping of a feed quality analysis laboratory.

36. Since 1973, DBP has had an agreement with the BAI to coordinate their work in the development of livestock production. Under this agreement, DBP provides borrowers with technical assistance and advisory services for planning, budgeting and marketing and BAI provides animal husbandry and veterinary technical services upon the request of DBP. However, this agreement is not very effective because BAI technicians do not normally assist in the early stages of sub-project preparation and therefore there is little incentive for them to get involved at a later stage of enterprise development. Since DBP cannot be expected to provide full livestock extension services from its own resources, it would, under the project, renegotiate with BAI and implement a new agreement which would provide for BAI technicians to be involved in sub-loan projects from the outset. The conclusion of the revised agreement between BAI and DBP would be a condition of effectiveness of the loan (Sections 3.06 and 5.01(B) of the Loan Agreement).

Project Cost and Financing

37. The total cost of the project is estimated at \$41.3 million equivalent, of which \$12.4 million would be in foreign exchange. The Bank loan of \$20.5 million would finance about 50 percent of total costs, including the foreign exchange component and \$8.1 million of the local cost requirements. It would have a term of 14-1/2 years, including 5-1/2 years of grace. The Government would relend \$19.8 million of the loan to DBP on the same terms as

that of the Bank loan, and would assume the foreign exchange risk. As a condition of effectiveness, a subsidiary loan agreement would be entered into between the Government and DBP (Section 5.01(a) of the Loan Agreement). The balance of the loan (\$0.7 million) would be used by the Government to finance the cost of the four short term research consultants and related research equipment and supplies and equipment and material for the feed quality control laboratory.

38. DBP would on-lend the Bank funds to private sub-borrowers and municipalities (for slaughterhouses). Most sub-borrowers would contribute about 10 percent to the cost of their projects, but the major sub-borrowers and municipalities would contribute a minimum of 25 percent. The aggregate amount of loan proceeds used for farm sub-loans to major borrowers (sub-loans exceeding \$100,000) would be limited to a total of \$3 million of Bank funds. Of this amount, not more than \$500,000 would be for large poultry and piggery subprojects; leaving the balance of \$2.5 million for large sub-projects for cattle development (Para 4(b) and (c) of Schedule 1 to the Loan Agreement). Interest rates of sub-loans would be in accordance with DBP's interest rate policy which provides for 12 percent per annum for small loans of less than ₱5,000 and other loans fully secured by land, and 14 percent for all other loans. In addition, large sub-borrowers would pay a one-time 2 percent service fee. The sub-loans would generally have repayment periods of 8 to 13 years, including grace periods of 2 to 5 years, depending on the nature of the sub-project. The Government has recently raised the existing ceilings on lending rates in the Philippines to 17 percent for short term lending and 19 percent for long term lending. DBP is now actively considering the implications of this change for its own interest policies and has agreed to keep the Bank informed of its plans.

39. Under DBP's lending procedures, sub-loans of less than ₱50,000 (\$6,670) would be approved by branch managers subject to confirmation by DBP Board. DBP would use the standard sub-loan agreement approved by the Bank for the First Livestock Project and would not materially change this form without prior approval of the Bank (Para B.7, Schedule 5 to the Loan Agreement). All subloans for slaughterhouse construction and all subloans which exceed the equivalent of \$200,000 will be made after approval of the Bank (Para B.6, Schedule 5 to the Loan Agreement).

Procurement

40. Equipment and materials for farm development (\$35.6 million), as under the First Livestock Project, would be procured by farmers from local suppliers. There are generally adequate commercial outlets for the main inputs to permit sub-borrowers to obtain supplies at competitive prices. The scattered location and phasing over several years of the farm sub-loan projects and the diversity of equipment and supplies required makes bulk purchase of inputs impractical. Some of the local suppliers are subsidiaries or associate companies of international firms. Slaughterhouse contracts (totalling about \$1.9 million) would not be suitable for international bidding and would therefore be awarded after local advertisement in accordance with the Bank Guidelines. These contracts are small, widely

scattered geographically and construction would be phased over the project implementation period. There is adequate local fabrication and construction capability and competition to ensure that the relatively simple slaughterhouses proposed can be procured efficiently. Contracts for technical services (about \$0.2 million) may be **financed under bilateral aid but will otherwise be** awarded according to standard Bank procedures. The vehicles and equipment (\$160,000) required for administering the project and for technical services would be procured locally by DBP, using its normal procurement procedures which are satisfactory. Bulk international procurement of vehicles and equipment required by DBP to carry out the project is not warranted because requirements are phased over several years and the lot sizes are too small to be attractive to international bidders. Equipment and materials for feed quality control (\$0.4 million) would be procured following international competitive bidding in accordance with Bank Group Guidelines.

Disbursement

41. The proposed Bank loan would help finance DBP's sub-loan commitments over the next three years and the loan would be disbursed over about 5-1/2 years. The Bank would reimburse, against appropriate documents, 50 percent of medium and long term loans granted by DBP to project beneficiaries for pig, poultry, backyard cattle, dairy and slaughterhouses and 55 percent for coconut beef and hill beef loans; 100 percent of the foreign exchange costs or 60 percent of the local costs of technical experts; 100 percent of the c.i.f. cost of imported materials and equipment, 100 percent of the ex-factory cost of goods produced in the Philippines or 60 percent of the total cost of imported items procured within the country. Since the project would support DBP's ongoing livestock program and the proceeds of the First Livestock Loan was fully committed at the end of 1975, it is proposed that the proposed loan finance retroactively up to \$1.5 million of costs incurred under DBP's livestock lending program after December 31, 1975.

Benefits and Justification

42. The proposed project would contribute to Government's objective of increasing the production of meat, eggs and milk, help stabilize the prices for these products and encourage development of small-scale livestock production by poorer farmers. Furthermore, the project would continue the institution building role begun under the First Project by strengthening the Livestock and Poultry Group of DBP and the DBP branches and by involving the Bureau of Animal Industry in the project more directly in support of DBP's lending program. Incremental net income to the 3,050 farm families participating in the project would average \$2,210 per annum at full development with a range from \$410 to \$6,300. The present incomes of these families cover a wide range, but it is estimated that about 1,300 farm families with an annual income of less than \$800 per annum would benefit from the project.

43. At full development (Year 11), the project would generate some 5,800 permanent jobs and indirectly a large number of jobs in the production of feedstuffs, transportation and marketing. It would result in net foreign exchange savings of \$17 million a year at full development. Social benefits

of the project would be substantial, since about 80 percent of direct and indirect beneficiaries are within the target rural poverty group with a per capita income of less than \$140. The economic rate of return is estimated to be 25 percent. Sensitivity analyses indicate that even under a number of adverse assumptions, the rate of return would not fall below 13 percent.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

44. The draft Loan Agreement between the Republic of the Philippines and the Bank, the Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement of the Bank and the text of a draft resolution approving the proposed loan are being distributed separately to the Executive Directors. The loan would not become effective until a subsidiary loan agreement is concluded between the Government and DBP and until a revised technical assistance agreement has been concluded between the Bureau of Animal Industry and DBP. The draft Agreement conforms to the normal pattern for loans for livestock projects.

45. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

46. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

by: J. Burke Knapp

Attachments
March 4, 1976

COUNTRY DATA - PHILIPPINES

AREA	POPULATION	DENSITY
300,000 km ²	39.04 million (mid-1972)	.. Per km ² of arable land

SOCIAL INDICATORS

	Philippines		Reference Countries		
	1960	1970	Thailand 1970	Turkey 1970	Korea 1970
GDP PER CAPITA US\$ (ATLAS BASIS) ¹	160 ^a	220 ^a	220 ^b	370 ^b	310 ^b
DEMOGRAPHIC					
Crude birth rate (per thousand)	..	45 ^c	43 ^c	38 ^{c,d}	28
Crude death rate (per thousand)	..	12 ^c	10 ^c	13 ^{c,d}	8
Infant mortality rate (per thousand live births)	..	80	80-90	145 ^e	..
Life expectancy at birth (years)	51 ^f	58	59	55 ^e	65
Gross reproduction rate ²	..	3.3	3.2	2.6 ^{d,g}	2.5
Population growth rate ³	3.0	3.0 ^h	3.1 ^h	2.5 ^h	2.2 ^h
Population growth rate - urban	2 ^{i,j}	4 ⁱ	5 ^k	4.5 ⁱ	6 ^h
Age structure (percent)					
0-14	46	43 ^b	45	42	40 ^b
15-64	51	54 ^b	52	54	57 ^b
65 and over	3	3 ^b	3	4	3 ^b
Age dependency ratio ⁴	1.7	0.9 ^b	0.9	0.8	0.8 ^b
Economic dependency ratio ⁴	1.7	1.5	1.1	1.1	1.1
Urban population as percent of total	30 ⁱ	32 ⁱ	25 ^k	39 ^{b,i}	41 ^m
Family planning: No. of acceptors cumulative (thous.)	..	409	490	484 ^{p,q}	..
No. of users (% of married women)	..	8	10	8.2 ^e	..
EMPLOYMENT					
Total labor force (thousands)	9,100	12,300	16,500	14,500 ^r	10,500 ^b
Percentage employed in agriculture	61	51	81	67	48 ^b
Percentage unemployed	7	7 ^{ab}	..	4	5 ^b
INCOME DISTRIBUTION					
Percent of national income received by highest 5%	29 ^{s,t}	25 ^{o,t}	17 ^{t,u}	32 ^{s,t,v}	15 ^{o,t}
Percent of national income received by highest 20%	56 ^{s,t}	54 ^{o,t}	46 ^{t,u}	60 ^{s,t,v}	37 ^{o,t}
Percent of national income received by lowest 20%	5 ^{s,t}	4 ^{o,t}	7 ^{t,u}	3 ^{s,t,v}	10 ^{o,t}
Percent of national income received by lowest 40%	13 ^{s,t}	12 ^{o,t}	17 ^{t,u}	10 ^{s,t,v}	24 ^{o,t}
DISTRIBUTION OF LAND OWNERSHIP					
% owned by top 10% of owners	..	..	..	53	28
% owned by smallest 10% of owners	..	..	..	0.9	2
HEALTH AND NUTRITION					
Population per physician	..	9,100 ^v	7,970	2,220	2,210 ^y
Population per nursing person	..	5,390 ^v	6,650	1,880 ^x	1,760 ^y
Population per hospital bed	1,180 ^{aa}	850 ^{ab,ac}	850	490	1,920
Per capita calorie supply as % of requirements ⁵	83	85	105	110	103 ^{ab}
Per capita protein supply, total (grams per day) ⁶	44	45	105	78	65 ^{ab}
Of which, animal and pulse	19 ^{ad}	22 ^{ab}	17 ^{ac}	22 ^{ae}	19 ^{ab}
Death rate 1-4 years ⁷	9 ^{aa}	7 ^{ab}	..	15 ^{af}	..
EDUCATION					
Adjusted ⁸ primary school enrollment ratio	91	112 ^{ag,ah}	80 ^a	111 ^{ag}	104
Adjusted ⁸ secondary school enrollment ratio	26	45 ^{ah}	13 ^e	28	41
Years of schooling provided, first and second level	10	10	12	13	12
Vocational enrollment as % of sec. school enrollment	14	10 ^{ah,ai}	12 ^{ab,aj}	14	15 ^o
Adult literacy rate %	..	72 ⁱ	70 ^{o,t}	55	91 ^{ak,al}
HOUSING					
Average No. of persons per room (urban)	..	..	..	1.9	2.7
Percent of occupied units without piped water	80 ^{am}	66 ^{am}	..	64 ^{am}	80 ^{an}
Access to electricity (as % of total population)	17 ^{ao}	23 ^{ah}	17	41	50
Percent of rural population connected to electricity	..	6 ^{ah}	13	18	30
CONSUMPTION					
Radio receivers per 1000 population	22	46 ^b	83 ^b	107 ^b	128 ^o
Passenger cars per 1000 population	3	8 ^b	7 ^c	4	2 ^b
Electric power consumption (kwh p.c.)	101	255 ^b	169 ^b	304 ^b	392 ^b
Newspaper consumption p.c. kg per year	1.3 ^z	1.7 ^b	1.5 ^b	2.2 ^b	3.7 ^b

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1956-60 or 1966-70; the latest years in principle to 1960 and 1970.

- ¹ The Per Capita GNP estimate is at market prices for years other than 1960, calculated by the same conversion technique as the 1972 World Bank Atlas.
- ² Average number of daughters per woman of reproductive age.
- ³ Population growth rates are for the decades ending in 1960 and 1970.
- ⁴ Ratio of population under 15 and 65 and over to population of ages 15-64 for age dependency ratio and to labor force of ages 15-64 for economic dependency ratio.
- ⁵ FAO reference standards represent physiological requirements for normal activity and health, taking

- account of environmental temperature, body weights, and distribution by age and sex of national populations.
- ⁶ Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.
- ⁷ Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.
- ⁸ Percentage enrolled of corresponding population of school age as defined for each country.

- ^a Computed by applying to the 1970 figure the growth rate of GNP/capita in real terms from 1960 to 1970; ^b 1972; 1965-70 UN estimate; ^c Derived from sample survey estimates (240,000 persons) excluding 17 Eastern provinces; ^d 1968; ^e 1946-49; ^f 1945-67; ^g 1960-72; ^h 1956-60; ⁱ For definition of urban see UN Demographic Yearbook 1972, p. 156; ^j Over 10,000 population; ^k Administrative centers of provinces and districts ("Wilayat" and "Kasbah" centers); ^l Seoul city and municipalities of 5,000 or more inhabitants; ^m Estimate; ⁿ 1971; ^o 1964-June 1974; ^p 86 percent being IUDs; ^q 15 years and over; ^r 1961; ^s Households; ^t Urban only; ^u Disposable income; ^v Personnel in government services only; ^w Including assistant nurses and midwives; ^x Number on the register, not all working in the country; ^y Imports only; ^z 1962; ^{aa} 1969; ^{ab} Including rural hospitals; ^{ac} 1960-62; ^{ad} 1964-66; ^{ae} 1965-67; ^{af} Including overage students; ^{ag} 1967; ^{ah} Public education only; ^{ai} Data on vocational education refer to public schools and include technical education at post-secondary level; ^{aj} 10 years and over; ^{ak} Definition not available; ^{al} Water piped inside or outside; ^{am} Water piped inside; ^{an} Percentage of dwellings.

* Korea has been selected on the basis of its similar population, location and income level and like the Philippines, it is expected to grow rapidly in the coming years.

ECONOMIC INDICATORS ^{1/}

	GROSS NATIONAL PRODUCT IN 1974		ANNUAL RATE OF GROWTH (% , constant prices)					
	US\$ Mln.	%	1960-65	1965-70	1971	1972	1973	1974
GNP at Market Prices	14,550	100.0	5.5	5.7	6.5	4.3	10.0	5.8
Gross Domestic Investment	3,630	24.9	12.6	1.6	5.9	-3.2	9.4	-3.4
Gross National Saving	3,420	23.5	15.0	3.6	13.2	-8.2	49.1	-11.6
Current Account Balance	-210	-1.5						
Exports of Goods, NFS	3,357	23.1	11.0	4.5	5.0	1.5	18.7	-24.1
Imports of Goods, NFS	3,782	27.2	7.3	7.2	5.4	2.7	13.1	20.4

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1974 ^{1/}

	Value Added		Labor Force ^{2/}		V. A. Per Worker	
	US\$ Mln.	%	Mln.	%	US \$	%
Agriculture	4,187	36.0	7.6	53.9	551	67.0
Industry	3,850	33.1	2.4	17.0	1,604	194.9
Services	3,581	30.8	3.8	27.0	942	114.5
Unallocated	.	.	0.3	2.1	.	.
Total/Average	11,618	100.0	14.1	100.0	823	100.0

GOVERNMENT FINANCE

	General Government			Central Government		
	(Mln.)	% of GDP		(Pesos Mln.)	% of GDP	
	197	197	196 -7	FY74	FY74	F(71-73)
Current Receipts	10,370	12.2	9.0
Current Expenditure	7,915	9.3	8.0
Current Surplus	2,455	2.9	1.0
Capital Expenditures	2,646	3.1	1.4
External Assistance (net)	186	0.2	0.4

MONEY, CREDIT and PRICES

	1965	1969	1970	1971	1972	1973	1974
		(Million pesos outstanding end period)					
Money and Quasi Money	5,136	8,959	10,140	11,720	13,243	16,837	19,766
Bank credit to Public Sector ^{3/}	980	3,565	3,479	3,907	4,817	6,820	7,627
Bank Credit to Private Sector	8,223	13,139	15,396	18,010	21,531	26,906	34,326

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	21.1	27.0	25.0	23.2	23.5	23.5	19.9
General Price Index (1963 = 100)	100.0	111.4	137.7	159.3	175.3	218.4	337.5
Annual percentage changes in:							
General Price Index	2.2	1.3	23.6	15.7	10.0	24.6	54.5
Bank credit to Public Sector	..	27.9	-2.4	12.3	22.3	41.6	11.8
Bank credit to Private Sector	..	9.0	17.2	17.0	27.0	25.0	27.6

NOTE: All conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

^{1/} All current factor cost.

^{2/} Total labor force; unemployed are allocated to sector of their normal occupation. "Unallocated" consists mainly of unemployed workers seeking their first job.

^{3/} Covers credits from all important financial institutions.

.. not available

. not applicable

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

	1971	1972	1973	1974
	(Million US\$)			
Exports of Goods, NFS	1,432	2,443	3,357	
Imports of Goods, NFS	1,484	2,008	3,782	
Resource Gap (deficit = -)	-52	+435	-425	
Interest Payments (net)	-92	-53	-55	
Workers' Remittances				
Other Factor Payments (net)	-33	-60		
Net Transfers	188	234	271	
Balance on Current Account	+11	556	-210	
Direct Foreign Investment				
Net MLT Borrowing	-22	77	59	
Disbursements	390	377	402	
Amortization	250	335	339	
Subtotal	140	42	63	
Capital Grants				
Other Capital (net) 1/	15	-43	373	
Other items n.e.i 2/	-106	-38	4	
Increase in Reserves (+) 3/	+38	+594	-289	
Gross Reserves (end year) 4/	735	1,416	1,978	
Net Reserves (end year) 4/	80	753	934	
Inter. Reserves (end year) 5/	282	676	1,165	
Fuel and Related Materials				
Imports of Goods, NFS	1,514	2,008	3,782	
of which: Petroleum	117	184	653	

MERCHANDISE EXPORTS (AVERAGE 1972-74)

	US \$ Mln	%
Coconut Products	403	21.2
Sugar Products	426	22.4
Forest Products	337	17.7
Mineral Products	393	20.7
Fruits and other agricultural Products	117	6.2
Other manufactures	224	11.8
Total	1,900	100.0

EXTERNAL DEBT, DECEMBER 31, 1974 6/

	US \$ Mln
Public Debt, incl. guaranteed	1,113
Non-Guaranteed Private Debt	985
Total outstanding & Disbursed	2,098
<u>DEBT SERVICE RATIO for 1974</u> 7/	
	%
Public Debt, incl. guaranteed	6.6
Non-Guaranteed Private Debt	8.9
Total outstanding & Disbursed	15.5

IBRD/IDA LENDING, January 31, 1976 (Million US \$)RATE OF EXCHANGE

	1965-69	1970-71
US\$ 1.00 = Ps.	3.92	6.43
Ps. 1.00 = US\$	0.26	0.16

April 1972-July 1975

US\$ 1.00 = Ps.	6.78
Ps. 1.00 = US\$	0.15

Since July 1975

US\$ 1.00 = Ps.	7.5
Ps. 1.00 = US\$	0.133

	IBRD	IDA
Outstanding & Disbursed	237.0	7.3
Undisbursed	453.4	14.2
Outstanding incl. Undisbursed	690.4	22.2

- 1/ Includes SDRs, short-term private loans, Central Bank liabilities and use of IMF credit.
 2/ Errors and omissions
 3/ Includes net commercial bank holdings plus foreign exchange holdings of Central Bank and monetary gold. This entry is equivalent to the change in international reserves.
 4/ Includes Central Bank and commercial bank reserves.
 5/ Gross reserves of Central Bank plus net reserves of commercial banks.
 6/ Includes short-term debt and IMF standby credit and is on a disbursement basis.
 7/ Ratio of Debt-Service to Exports of Goods and Non-factor Services.

PHILIPPINESA. Statement of Bank Loans and IDA Credits to the Philippines
as of **January 31, 1976**

Loan or Credit Number	Year	Borrower	Purpose	(US\$ millions)		
				Bank	IDA	Undisbursed
13 loans and credits fully disbursed				191.0		
637-PH	1969	Republic of the Philippines	Irrigation	34.0		1.0
720-PH	1971	"	Rice Processing and storage	14.3		11.0
731-PH	1971	"	First Highway	8.0		1.4
809-PH	1972	National Power Corporation	Power	22.0		15.8
823-PH	1972	Republic of the Philippines	Livestock	7.5		1.8
349-PH	1973	"	Education II		12.7	8.5
891-PH	1973	"	Fisheries	11.6		8.3
939-PH	1973	"	Ports	6.1		5.8
950-PH	1973	"	Highway II	68.0		44.0
472-PH	1974	"	Aurora-Penaranda Irrigation		9.5	6.4
984-PH	1974	"	"	9.5		9.4
998-PH	1974	"	DFC - DBP I	50.0		26.7
1010-PH	1974	"	Third Rural Credit	22.0		2.4
1034-PH	1974	National Power Corporation	Power	61.0		53.0
1035-PH	1974	Republic of the Philippines	Population	25.0		24.8
1048-PH	1974	"	Shipping	20.0		20.0
1052-PH	1974	Philippine National Bank	DFC	30.0		28.2
1080-PH	1975	Republic of the Philippines	Tarlac Irrigation	17.0		16.9
1102-PH	1975	"	Rural Development	25.0		24.9
1120-PH	1975	"	Small and Medium Industries	30.0		26.1
1154-PH	1976	"	Magat Irrigation	42.0		42.0
1190-PH	1976	"	DFC-DBP II	75.0		75.0
TOTAL				769.0	22.2	453.4
Of which has been repaid (Bank and 3rd Parties)				78.6	-	
Total now outstanding				690.4	22.2	
Amount sold				13.3		
of which has been repaid (3rd Parties)				12.1		
Total now held by Bank and IDA (prior to exchange rate adjustments)				689.2	22.2	
<hr/> Total undisbursed				438.5	14.9	453.4

* Not yet effective.

B. Statement of IFC Investments in the Philippines as of January 31, 1976

<u>Fiscal Year</u>	<u>Company</u>	(Amount US\$ million)		
		<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1963 & 1973	Private Development Corporation of the Philippines	15.0	4.4	19.4
1967	Manila Electric Company	8.0	-	8.0
1967	Meralco Securities Corporation	-	4.0	4.0
1970	Philippine Long Distance Telephone Company	4.5	-	4.5
1970 & 1972	Mariwasa Manufacturing Inc.	0.8	0.4	1.2
1970	Paper Industries Corporation of the Philippines	-	2.2	2.2
1971	Philippine Petroleum Corporation	6.2	1.8	8.0
1972	Marinduque Mining and Industrial Corporation	15.0	-	15.0
1973	Victorias Chemical Corporation	1.9	0.3	2.2
1974	Filipinas Synthetic Fiber Corporation	1.5	-	1.5
1974	Maria Christina Chemicals	1.5	.5	2.0
1974	Republic Flour Mills Corporation	1.2	-	1.2
1975	Philippine Polyamide Industrial Corporation	<u>7.0</u>	<u>-</u>	<u>7.0</u>
	Total	62.6	13.6	76.2
	Less sold, acquired by others, repaid or cancelled	<u>15.6</u>	<u>7.1</u>	<u>22.7</u>
	Now held	<u>47.7</u>	<u>6.5</u>	<u>53.5</u>
	Undisbursed	-	-	-

C. Projects in Execution ^{1/}

Ln. No. 637-PH Upper Pampanga River Irrigation; US\$34.0 million Loan of August 18, 1969; Date of Effectiveness: October 15, 1969; Closing Date: June 30, 1976

This is the first major irrigation project in the Philippines and will supply water year-round to nearly all its 84,000 ha command area. The project's on-farm development scheme is setting a pattern for future irrigation development in the country. Despite some delays caused by the 1972 floods, the dam was commissioned on September 7, 1974 ahead of schedule. Most of the work has been completed and the loan is expected to be entirely disbursed by June 30, 1976, the Closing Date. Project costs have increased 40% over appraisal estimates, largely as a result of rapid inflation, the effects of successive devaluations of the peso, and design changes in the dam (which accounted for nearly half the increase in costs). The increase in costs is being financed by the Government. However, as a result of the close coordination established between irrigation and agricultural supporting services, the project is expected to reach full development in 7 years after completion of construction, instead of 13 years which was the appraisal estimate. Also, nearly 7,000 ha have been added to the project, mostly by including lands which were formerly under a private irrigation system. Finally, there has been a considerable increase in the projected world market price of rice. As a result, the rate of return estimate is now more favorable than at appraisal.

Ln. No. 720-PH Rice Processing and Storage; US\$14.3 million Loan of February 4, 1971; Date of Effectiveness: May 10, 1971; Closing Date: June 30, 1977

This project provides long-term credit through the Development Bank of the Philippines to finance a program for the development and modernization of the rice and corn processing industry. Originally the project was restricted to rice and to the private sector, and the emphasis was on the construction of new integrated rice mills with large capacities. Due in part to poor harvests and in part to large cost increases for rice mills, the demand for sub-loans for new integrated rice mills turned out to be small, and, as explained in the President's Memorandum dated June 8, 1972 (R72-40), the loan agreement was amended to shift the project emphasis to rehabilitation of existing rice milling facilities. In spite of this the project made little progress. The loan agreement was amended again in April, 1974 basically (i) to expand the scope of the project to include

^{1/} These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

corn in addition to rice, (ii) to enable local governments and the National Grains Authority to borrow funds under the project, and (iii) to streamline procurement procedures (President's memorandum SecM74-244 of April 15, 1974). As a result of these amendments, the project is now progressing satisfactorily and the loan is expected to be fully disbursed before the revised Closing Date, June 30, 1977.

Ln. No. 731-PH Highway; US\$8.0 million Loan of April 14, 1971;
Date of Effectiveness: July 23, 1971; Closing Date:
June 30, 1976

The project is financing the construction and improvement of the Cotabato - Digos road in Mindanao (160 km.). Construction is only 55% complete based on the original scope of works, the delay being mainly due to civil disturbances and army activity on part of the road representing about 20% of the total roadworks. As there is little chance of the contractor being able to enter this area, the Bank has agreed to a Government proposal to delete this stretch of the road from the contract and eventually execute the work by force account; the undisbursed amount of the loan fund will be applied to the balance of works which can be completed by contract. The total cost of the reduced project is estimated to be about US\$16.4 million compared to appraisal estimate of US\$15.8 million. The increase in cost is due to a rise in construction costs which has been substantial since oil price increases in late 1973. The roadworks have been completed in December 1975. The other components of the project including UNDP-financed feasibility studies were completed in 1973. The closing date has been extended from May 15, 1975 to June 30, 1976. Technical assistance to the Department of Public Highways is continuing with Bank financing under the Second Highway Project.

Ln. No. 809-PH Fifth Power; US\$22.0 million and US\$10.0 million Loan
and and Credit of April 3, 1972; Date of Effectiveness:
Cr. No. 296-PH July 1, 1972; Closing Date: June 30, 1978

The project is helping the National Power Corporation (NPC) to finance the construction of a second thermal unit of 150-MW at Bataan and transmission facilities in Luzon. The project is proceeding satisfactorily, and the unit is expected to be commissioned during the second quarter of 1976. The erection of transmission lines has been somewhat delayed due to unfavorable weather and poor soil conditions and is now expected to be completed in June 1976. Further tariff increases were approved, effective July 1, 1974 and again in July 1, 1975, although this last increase still has not received Presidential approval. No major problems are anticipated.

Ln. No. 823-PH Livestock; US\$7.5 million Loan of May 25, 1972;
Date of Effectiveness: November 9, 1972; Closing
Date: December 31, 1978

The project is assisting Government in carrying out its livestock development program through credit supervised by the Development Bank of the

Philippines. The start of DBP lending operations was delayed by about six months because of late appointment of technical staff. Although sub-loan commitments were slow as a result of this, they improved so that all funds were fully committed by December, 1975. The project has expanded the agricultural credit capability of DBP into a new and important field thus meeting a previously unsatisfied demand for small to medium scale livestock development finance.

Cr. No. 471-PH Aurora-Penaranda Irrigation; US\$9.5 million Credit of May 14, 1974; Date of Effectiveness: August 22, 1974; Closing Date: June 30, 1979

Ln. No. 984-PH Aurora-Penaranda Irrigation; US\$9.5 million Loan of May 14, 1974; Date of Effectiveness: August 22, 1974; Closing Date: June 30, 1979

This is the second irrigation development and rehabilitation project in the Philippines to be financed by the Bank. The project will divert water from the Aurora basin into the Pantabangan Reservoir of the first project, to provide year-round irrigation for 25,300 ha of rice land in Central Luzon. The project also includes an Irrigation Development Study for Central Luzon to inventory water, land, and other resources and identify priority irrigation projects. Although there has been some delay in constructing the two diversion dams because of the need for more extensive foundations and abutment area grouting than originally expected, most difficulties have been overcome and the work is progressing satisfactorily. Diversion of 75% of Aurora water into Pantabangan Reservoir was achieved in September, 1975, one year ahead of the appraisal schedule. In the service area, lack of competition and high bids have delayed awarding of contracts. Urgent work is being done by Government force account, although the Credit Agreement sets a force account limit of about 20% on civil works in the service area. Project costs have increased about 54% over appraisal estimates, largely as a result of rapid inflation. There would be added benefits from early diversion, however, resulting in additional water for irrigation sooner than planned, and the rate of return is expected to fall from 17% at appraisal to 14%.

Ln. No. 998-PH Industrial Investment and Smallholder Tree-farmers: US\$50.0 million Loan of June 12, 1974; Date of Effectiveness: September 9, 1974; Closing Date: December 31, 1981

The proceeds of the loan are being relent to the Development Bank of the Philippines (DBP). The industrial portion of the loan (US\$48 million) is being used by DBP to make sub-loans to finance direct imports for medium and relatively large industrial projects. DBP is using the balance (US\$2 million) to finance about 1,300 smallholders in a pilot tree-farming project. As of December 31, 1975 commitments for sub-loans totalling \$37 million had been made.

Ln. No. 1010-PH Third Rural Credit; US\$22.0 million Loan of June 17, 1974;
Date of Effectiveness: August 27, 1974; Closing Date:
December 31, 1977

The Central Bank relends the proceeds of the Loan (except for a small amount for an evaluation study) to participating banks. These on-lend the funds to farmers and rural entrepreneurs to finance investment in farm mechanization, on-farm transportation, farm support facilities and equipment, coastal and inland fisheries, small-scale livestock development and cottage-scale agro-industry. The project also provides for a review of the effectiveness of the First, Second and this project. The loan became effective on August 27, 1974, and is expected to be fully committed in 1976. Collection of arrears by a sizeable number of participating banks from beneficiaries under the first and second projects is not satisfactory. This is being watched closely by Bank staff and appropriate steps are being taken to improve such collections.

Ln. No. 1034-Ph Sixth Power; US\$61.0 million Loan of July 31, 1974;
Date of Effectiveness: November 15, 1974; Closing
Date: December 31, 1978

The project is helping the National Power Corporation (NPC) to finance a 100 MW hydro plant at Pantabangan and transmission lines for the further expansion of the Luzon grid and feasibility studies by consultants for a future power project. Major equipment for the plant has been contracted and project commissioning is expected in January 1977 - three months ahead of original schedule. The transmission component of the project is proceeding in stages. Some lines are under construction and others are in procurement process. The design work has been delayed due to NPC's heavy construction program. It is now expected that this part of the project will be completed by the end of 1978, i.e. one year behind schedule. NPC raised its tariffs on July 1, 1974, to meet the covenanted rate of return of 8 percent. But due to inflation NPC was not able to achieve this. NPC therefore increased tariffs on July 1, 1975, but this increase still has not received Presidential approval.

Cr. No. 349-PH Second Education; US\$12.7 million Credit of January 5,
1973; Date of Effectiveness: April 11, 1973; Closing
Date: December 31, 1978

The Credit is helping to finance a project for development of technical and vocational education and for improvement in curriculum development and teacher training. Construction has been about 12 months behind schedule mainly due to delays in the finalization of design/drawing of buildings and recruitment of specialist services. This delay is being reduced through effective management by the project unit. Procurement of equipment is on schedule. Both the program and schedule of technical assistance have been revised to suit the current needs of project institutions and to expedite implementation. Disbursements (US\$4.9 million as of 2/11/76) are ahead of the appraisal estimate. Project costs are estimated at about 32 percent above the appraisal estimates. The Government has agreed to finance the resulting overruns. Despite initial delays, the project is expected to be completed on schedule.

Ln. No. 891-PH Fisheries; US\$11.6 million Loan of May 21, 1973;
Date of Effectiveness: December 5, 1973; Closing
Date: June 30, 1979

This project is designed to provide long term credit to the private sector through the Development Bank of the Philippines for marine and inland fisheries development. The loan became effective on December 5, 1973. The demand for loans is adequate, and the organization to implement them has been properly established. The project is progressing satisfactorily, and all funds are expected to be fully committed by June, 1976.

Ln. No. 939-PH Second Ports; US\$6.1 million Loan of October 24, 1973
Date of Effectiveness: December 19, 1973; : Closing
Date: December 31, 1977

This project provides for the rehabilitation and expansion of the ports of General Santos and Cagayan de Oro in the island of Mindanao. The Contract for General Santos was awarded in May 1975 and work has started. For Cagayan de Oro, a bid has been selected and award of contract is awaiting Government approval.

Ln. No. 950-PH Second Highway; US\$68.0 million Loan of December 12,
1973; Date of Effectiveness: December 27, 1973;
Closing Date: December 31, 1977

The project is helping the Government to implement its program of construction, improvement and rehabilitation of highways and feeder roads, by financing the construction, improvement and rehabilitation of 1400 kms. of roads in Luzon. Work has begun on all fourteen contracts, ten of which were awarded to local contractors. In line with world-wide inflation, costs have increased sharply, but price adjustments are being awarded to contractors by the Government to offset the sharp rises in costs of basic materials, fuels and labor. The UNDP financed Road Feasibility Studies (Phase II), for which the Bank is executing Agency, have been completed and a possible Third Highway project has already been indentified and pre-appraised. Execution of other minor project items is proceeding generally on schedule.

Ln. No. 1035-PH Population; US\$25.0 million Loan of July 31, 1974;
Date of Effectiveness: November 13, 1974; Closing
Date: December 31, 1979

The project is assisting the Government in expanding rural health infrastructure, staff training facilities, and research and communications capacity. This will help the Philippines achieve their long-term goal of fertility reduction. It is progressing satisfactorily.

Ln. No. 1048-PH Inter-Island Shipping; US\$20 million Loan of October 29,
1974; Date of Effectiveness: January 15, 1975; Closing
Date: June 30, 1979

The Government is relending the proceeds of the loan to the Development Bank of the Philippines for onlending to beneficiaries for the

acquisition of new and used ships and for major repairs and conversions. The loan became effective on January 15, 1975. It is progressing satisfactorily.

Ln. No. 1052-PH Private Development Corporation of the Philippines; US\$30 million Loan of November 12, 1974; Date of Effectiveness: February 7, 1975; Closing Date: June 30, 1979

The project assists in the financing of industrial sub-projects in the Philippines, the bulk of which are expected to go to export-oriented manufacturing projects. The project is progressing satisfactorily.

Ln. No. 1080-PH Tarlac Irrigation; US\$17.0 million Loan of January 27, 1975; Date of Effectiveness: April 27, 1975; Closing Date: December 31, 1980

The project will assist the Government to improve and expand 34,000 hectares of land in Central Luzon for wet season irrigation for rice growing. It will also provide for a groundwater pilot scheme, a water management training program and a national irrigation systems improvement study. The project is progressing satisfactorily.

Ln. No. 1102-PH Rural Development; US\$25.0 million Loan of April 16, 1975; Date of Effectiveness: July 28, 1975; Closing Date: June 30, 1981

The project will assist the Government to carry out a rural development project on the island of Mindoro, which will include infrastructure and irrigation improvements, and ecological and health improvement measures. The Loan became effective on July 28, 1975. It is progressing satisfactorily.

Ln. No. 1120-PH Small and Medium Industries Development; US\$30.0 million Loan of June 5, 1975; Date of Effectiveness: August 20, 1975; Closing Date: August 31, 1979

The Government is relending \$15 million of the loan proceeds to the Development Bank of the Philippines (DBP) and \$12 million to the Industrial Guarantee Loan Fund (IGLF) to finance a wide range of small and medium industries sub-projects; \$2.3 million to the National Electrification Administration (NEA) to finance the establishment of 24 industrial producer cooperatives; \$0.7 million to the Department of Industry (DOI) to establish 7 Small Business Advisory Centers to provide technical assistance to small industries. The project is progressing satisfactorily and as of December 31, 1975 disbursements for sub-loans totalling \$3.9 million had been made.

Ln. No. 1154-PH Magat Multipurpose Project; US\$42.0 million Loan of August 7, 1975; Date of Effectiveness: November 4, 1975; Closing Date: June 30, 1982

The project will assist the Government to improve and expand 35,000 ha. of land in the Cagayan Valley, Northern Luzon, for wet and dry season irrigation for rice growing. It will provide for the construction or upgrading of about 830 kms of project roads, construction of an airstrip, access roads and a bridge across the Magat River near the Magat River Irrigation System diversion dam. The project will also provide for detailed engineering studies and economic evaluation of the proposed Magat Dam and reservoir, a water management training program and technical assistance to the National Irrigation Administration, the implementing agency, in systems operation and construction management. Consultants have been selected and have begun work on the engineering and economic evaluation studies. The Loan became effective on November 4, 1975.

Ln. No. 1190-PH Industrial Investment: US\$75.0 million Loan of January 28, 1976; Date of Effectiveness: Not yet effective; Closing Date: March 31, 1980

The proceeds of the loan are being relent to the Development Bank of the Philippines (DBP) for sub-loans to finance direct imports for medium and relatively large industrial projects. The loan is not yet effective.

PHILIPPINES

Second Livestock Project

Loan and Project Summary

Borrower: The Republic of the Philippines.

Beneficiary: Development Bank of the Philippines (DBP).

Amount: US\$20.5 million equivalent.

Terms: The loan would be for a term of 14-1/2 years, including a grace period of 5-1/2 years at an interest rate of 8.5 percent per annum.

Relending Terms: The Government would relend \$19.8 million equivalent from the proceeds of the loan to DBP on the same terms as those of the Bank loan. DBP would onlend the funds to private sub-borrowers and municipalities for livestock enterprises. Sub-loans would carry an interest rate of 12 percent per annum for small loans of less than ₱ 5,000 and for those fully secured by land and 14 percent per annum for other loans. In addition, major sub-borrowers would pay a one-time 2 percent service fee. Sub-loans would generally have repayment periods of 8 to 13 years, including grace periods of 2 to 5 years.

Project

Description:

The project consist of a program of credit by DBP to assist in the development of pig, poultry, and cattle enterprises, and in the establishment, replacement or upgrading of about 10 small municipal slaughterhouses; a program to offer formal training, including retraining and on the job instruction on livestock development to an adequate number of staff members of DBP. It would also provide, through the Government, for a program of investigation into pig and poultry nutrition; the use of by-products by ruminants and backyard cattle raising. Finally, the project would provide for the establishment by the Government, of a feed quality control system, including construction and equipping of a feed quality analysis laboratory.

Estimated Project Cost:

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>Foreign Exchange %</u>
Fixed Investment For Farm Development	15.6	2.6	18.2	14
Fixed Investment for Slaughterhouses	0.8	0.6	1.4	42
Incremental Working Capital	5.7	5.8	11.5	50
Administration, Technical Services, Equipment and Research	<u>0.8</u>	<u>0.8</u>	<u>1.6</u>	49
Base Cost Estimates	22.9	9.8	32.7	30
Physical Contingencies (Slaughterhouses)	0.1	-	0.1	100
Expected Price Increases	<u>5.9</u>	<u>2.6</u>	<u>8.5</u>	<u>30</u>
Total	<u>28.9</u>	<u>12.4</u>	<u>41.3</u>	<u>30</u>

Financing Plan:

<u>Components</u>	<u>Bene- ficiaries</u>		<u>DBP/Govt</u>		<u>IBRD</u>		<u>Total</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Farm Development	4.8	13	13.7	37	18.5	50	37.0	100
Slaughterhouses	0.5	25	0.5	25	0.9	50	1.9	100
Feed Quality Control Program	-	-	0.4	50	0.4	50	0.8	100
Administration, Technical Services, Equipment and Research	<u>-</u>	<u>-</u>	<u>0.9</u>	<u>56</u>	<u>0.7</u>	<u>44</u>	<u>1.6</u>	<u>100</u>
Total	<u>5.3</u>	<u>13</u>	<u>15.5</u>	<u>37</u>	<u>20.5</u>	<u>50</u>	<u>41.3</u>	<u>100</u>

Estimated
Disbursement:

The loan would be committed over three years and disbursed over 5-1/2 years.

<u>Fiscal Year</u>	<u>Annual Disbursement</u>	<u>Accumulated Disbursement</u>
	------(US\$'000)-----	
1977	2,900	2,900
1978	4,400	7,300
1979	6,600	13,900
1980	4,400	18,300
1981	1,800	20,100
1982	400	20,500

Procurement:

The following procedures have been agreed:

- (a) Procurement for farm development (\$35.6 million) would be undertaken by farmers from local suppliers. There are adequate commercial outlets for the main inputs to permit sub-borrowers to obtain supplies at competitive prices.
- (b) Slaughterhouses contracts (\$1.9 million) would be awarded after local advertisement.
- (c) Equipment and material for the feed quality control laboratory (\$0.4 million) would be procured after advertising under international competitive bidding procedures in accordance with Bank Guidelines.
- (d) Vehicles and equipment (\$160,000) required for administering the project and for technical services would be procured locally by DBP using its normal procedures which are satisfactory.
- (e) Technical services would be awarded in accordance with standard Bank procedures.

Consultants:

- (a) DBP would employ a consultant for cattle production (12 man-months) and one for farm development monitoring (12 man-months).

- (b) The Government would employ consultants on pig nutrition, poultry nutrition, the use of by-products by ruminants, and a backyard cattle raising systems (a total of about 24 man-months of consultancy).

Rate of Return: 25 percent.

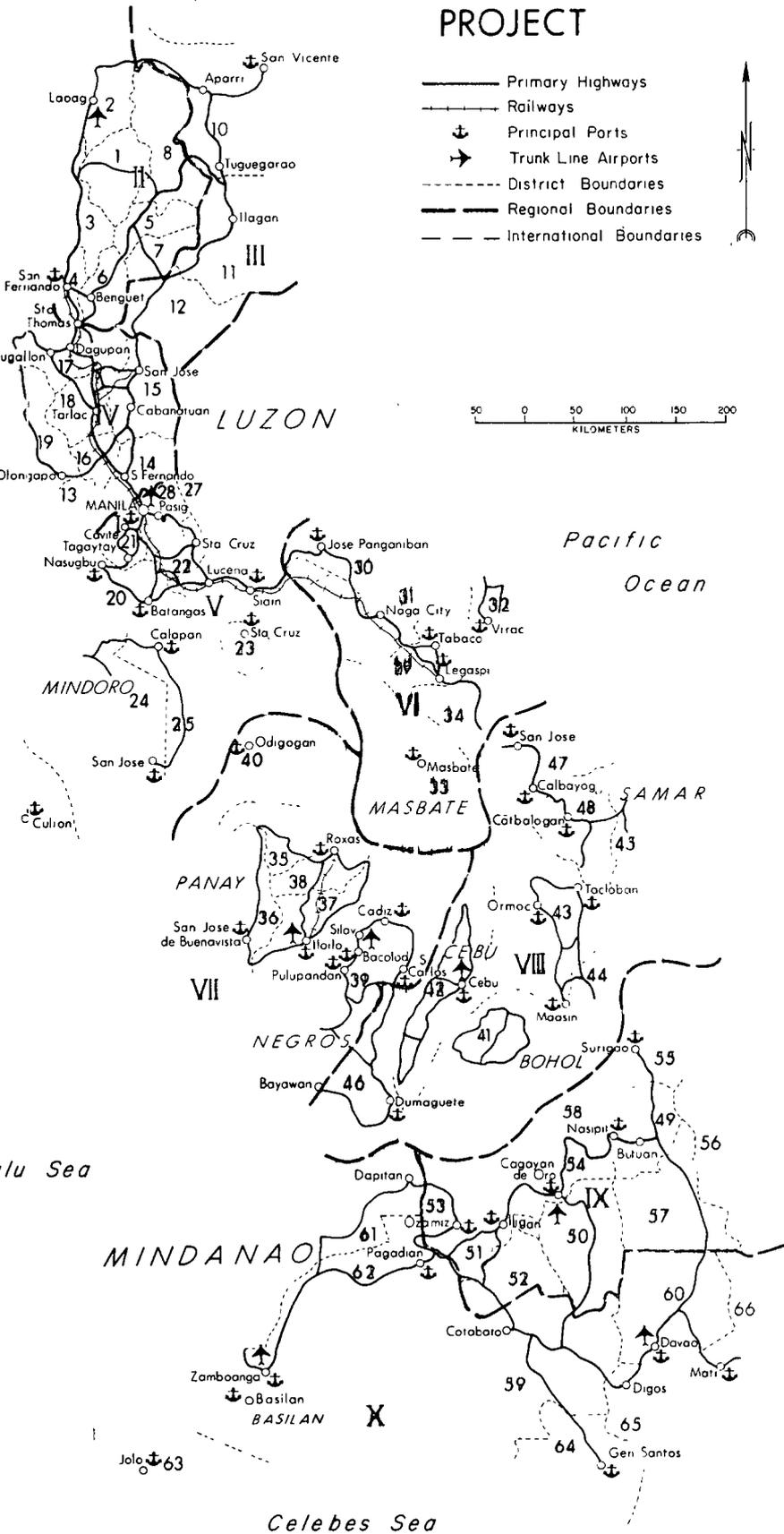
Appraisal Report: No.1070-PH dated February 20, 1976.

PHILIPPINES

SECOND LIVESTOCK DEVELOPMENT PROJECT

CLASSIFICATION OF PROVINCES, BY GEOGRAPHICAL REGIONS, 1972

- I CITY OF MANILA
- II ILOCOS
 - 1 Abra
 - 2 Ilocos Norte
 - 3 Ilocos Sur
 - 4 La Union
 - 5 Mountain Province
 - 6 Benguet
 - 7 Ifugao
 - 8 Kalinga-Apayao
- III CAGAYAN VALLEY
 - 9 Batanes
 - 10 Cagayan
 - 11 Isabela
 - 12 Nueva Vizcaya
- IV CENTRAL LUZON
 - 13 Bataan
 - 14 Bulacan
 - 15 Nueva Ecija
 - 16 Pampanga
 - 17 Pangasinan
 - 18 Tarlac
 - 19 Zambales
- V SOUTHERN TAGALOG
 - 20 Batangas
 - 21 Cavite
 - 22 Laguna
 - 23 Marinduque
 - 24 Mindoro Occidental
 - 25 Mindoro Oriental
 - 26 Palawan
 - 27 Quezon
 - 28 Rizal
- VI BICOL
 - 29 Albay
 - 30 Camarines Norte
 - 31 Camarines Sur
 - 32 Catanduanes
 - 33 Masbate
 - 34 Sorsogon
- VII WESTERN VISAYAS
 - 35 Aklan
 - 36 Antique
 - 37 Iloilo
 - 38 Capiz
 - 39 Negros Occidental
 - 40 Romblon
- VIII EASTERN VISAYAS
 - 41 Bohol
 - 42 Cebu
 - 43 Northern Leyte
 - 44 Southern Leyte
 - 45 Eastern Samar
 - 46 Negros Oriental
 - 47 Northern Samar
 - 48 Western Samar
- IX NORTHERN & EASTERN MINDANAO
 - 49 Agusan del Norte
 - 50 Bukidnon
 - 51 Lanao del Norte
 - 52 Lanao del Sur
 - 53 Misamis Occidental
 - 54 Misamis Oriental
 - 55 Surigao del Norte
 - 56 Surigao del Sur
 - 57 Agusan del Sur
 - 58 Camiguin
- X SOUTHERN & WESTERN MINDANAO
 - 59 Cotabato
 - 60 Davao del Norte
 - 61 Zamboanga del Norte
 - 62 Zamboanga del Sur
 - 63 Sulu
 - 64 South Cotabato
 - 65 Davao del Sur
 - 66 Davao Oriental



- Primary Highways
- Railways
- ⚓ Principal Ports
- ✈ Trunk Line Airports
- - - District Boundaries
- Regional Boundaries
- - - International Boundaries



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates

