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Report No. P-1596-PH

REPORT AND RECOMMENDATION

OF THE PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

THE REPUBLIC OF THE PHILIPPINES

FOR

THE RURAL DEVELOPMENT PROJECT

March 27, 1975

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Currency Unit	=	Peso (P)
US\$1	=	6.720
P 1	=	US\$.149
P 1,000	=	US\$149
P 1,000,000	=	US\$149,000
Fiscal Year	=	July 1 to June 30

DOCUMENT OF
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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FOR
EXECUTIVE
DIRECTORS'
MEETING

For consideration on
April 8, 1975

FROM: The Secretary

R75-50/1

April 1, 1975

PHILIPPINES: Rural Development Project

Owing to a mechanical slippage, page 2 of Annex III to the President's Report distributed on March 27, 1975 (R75-50) was skipped in several copies of the Report. Attached is the missing page which may please be inserted in those copies of the President's Report in which it was left out.

Distribution:

Executive Directors and Alternates
President
Senior Vice President, Operations
Executive Vice President and Vice President, IFC
President's Council
Directors and Department Heads, Bank and IFC

Estimated Cost:

US\$50 million equivalent of which US\$22 million in foreign exchange and US\$28 million in local currency.

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>Foreign</u>
	-----US\$ Million-----			<u>Exchange</u>
				<u>-----%</u>
Water Control	6.2	3.0	9.2	33
Roads and Ports	8.4	9.2	17.6	52
Agricultural Programs	1.5	0.8	2.3	35
Schistosomiasis Control	1.0	0.5	1.5	33
Mangyan Assistance	<u>0.3</u>	<u>0.1</u>	<u>0.4</u>	<u>25</u>
Base Cost Estimate	17.4	13.6	31.0	44
Physical Contingencies	2.6	1.7	4.3	40
Expected Price Increases	<u>8.4</u>	<u>6.3</u>	<u>14.7</u>	<u>43</u>
Total Project Cost:	<u>28.4</u>	<u>21.6</u>	<u>50.0</u>	<u>43</u>

Estimated Disbursements:

<u>FY</u>	<u>Annual Disbursements</u>	<u>Accumulated Disbursements</u>
	-----US\$.000-----	
1976	200	200
1977	4,000	4,200
1978	7,200	11,400
1979	7,000	18,400
1980	4,400	22,800
1981	2,200	25,000

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

1. I submit the following report and recommendation on a proposed loan for an equivalent of US\$25 million to the Republic of the Philippines to help finance a rural development project on Mindoro island. The loan would have a term of 25 years including seven years of grace with interest at 8.5 percent per annum.

PART I - THE ECONOMY

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. Annex I contains country data.

Recent Developments

3. In the past two years there has been a sharp increase in the level of economic activity in the Philippines. The growth in real GNP, which had been about 5-6% a year for more than a decade, doubled to 10% in 1973. The strong recovery in 1973 was led by the international commodity boom and resultant increased export incomes in the Philippines, by a strong recovery in agricultural and industrial production for the domestic market, and by an expansion in public and private investment. The increased domestic output, and a 28% improvement in the external terms of trade, resulted in a 14% increase in gross national income in real terms in 1973 compared with about 1% in 1972. Underemployment and unemployment remain quite high, however, and in common with most other countries, the rate of inflation increased appreciably in the past 18 months. The Government has pressed ahead with a number of important and potentially far-reaching economic and social reforms in such areas as agrarian reform, taxation, customs administration and tariffs, banking and government organization.

4. The agricultural sector, which has suffered from adverse weather conditions during the previous three years, grew by 7% in 1973. Rice production in crop year 1973-74 increased by 23% over the level of the previous year when floods reduced production. This increase was mainly due to favorable weather conditions, increased use of fertilizers, more supervised credit and increased investments in supporting rural services as part of a general drive for rice self-sufficiency. The impact of typhoons and flooding in December, 1974 appears to have been significant and as a result no increase in rice production is likely for the crop year 1974-75. The Government made rapid progress in implementation of the program of agrarian reform for the nation's one million rice and corn farm tenants in 1973 and issued certificates of land transfer to about 144,000 tenants mostly associated with the large holdings. But this was considerably slowed down in 1974 mainly due to the increased resistance of medium scale farm owners, administrative difficulties and land valuation and compensation problems.

As a result, only about 47,000 additional certificates were issued during 1974. Recently the Government indicated its intention through various decrees and memoranda to resolve these problems and move forward with the implementation of the program.

5. The boom in export incomes and increased activity in agriculture has provided the base for renewed expansion of the industrial sector which grew by about 11% in 1973. Non-traditional industrial exports, which have been increasing since 1970, are estimated to have doubled in 1973 to about \$200 million. The growth of industrial production for export has also been stimulated by the Government's industrial export drive which includes a range of export incentives. However, industrial exports have been affected by the recent slowdown in the economies of key trading partners, and earnings are expected to have levelled off in 1974.

6. The growth in production was also assisted by increased public development outlays in 1973 made possible by a significant improvement in the financial position of the Government. The ratio of public investment to GNP is currently about 3% compared with 1.8% in FY72. The Government has implemented a series of long needed tax reforms and improvements in tax administration, such as customs and tariff reform, tax amnesties, reforms in corporate and local taxation, continuation of the export tax, and increased taxation on luxury items and on gasoline. These reforms, aided by the increased economic activity, the boom in export incomes, and domestic inflation, resulted in a 36% increase in tax revenues in FY73, and an estimated 47% in FY74. As a result, the ratio of national and local Government tax revenues to GNP has increased from an average of 9% in recent years to an estimated 12.4% in FY74.

7. High prices for the Philippines chief exports, including coconut products, sugar, copper and wood products, were largely responsible for an increase in merchandise receipts of almost 70% in 1973. The merchandise trade account recorded a surplus of about \$270 million, as compared with a \$150 million deficit in the previous year. International reserves rose by about \$600 million during the year and stood at \$876 million, equivalent to about five months of imports, at the end of December 1973. However, since mid-1974, a large trade deficit has appeared, largely because the growth in export prices has moderated while import prices have continued to rise rapidly. As a result of this trade deficit, the overall balance of payments surplus is estimated to have fallen from about \$700 million in 1973 to less than \$100 million in 1974. By the end of 1974 international reserves were about \$1.2 billion, equivalent to roughly four months imports.

8. In the latter part of 1973, inflation emerged as a major problem in the Philippines. Starting in mid-1973 consumer prices began to rise at an annual rate of more than 40%. This was caused by the large increase in liquidity since the export boom began in 1973, and by a number of factors, including the higher rate of world inflation, domestic food shortages and

the increased cost of petroleum. Aided by monetary and fiscal policies aimed at absorbing the excessive liquidity expansion, the rate of inflation slowed to less than 20% by the end of 1974. Other factors that helped moderate the rate of inflation include the substantial reduction in the balance of payments surplus in 1974 and the considerable increase in rice production in crop year 1973/74. The inflation of the last two years has exacerbated the decline in real wages which fell by a total of about 25% between 1969 and 1973. The urban wage earners have been most affected. Agricultural and entrepreneurial incomes have improved very substantially. Money wages will have to be raised in the near future if further deterioration in the living standards of wage earners is to be avoided.

The Energy Crisis

9. Imported petroleum provides some 97% of the Philippines' total energy requirements. In 1973 the equivalent of 71 million barrels of petroleum crude and other petroleum products were imported at a cost of about \$230 million cif. When the energy crisis developed in late 1973, it looked as though economic activity in the Philippines would be severely disrupted. There were temporary dislocations but the Government moved quickly with conservation measures to reduce non-essential consumption. By March 1974 these problems had been overcome and the Philippines is now obtaining sufficient petroleum for its needs. In 1974 imports of petroleum and products are estimated to be about 71 million barrels at a cost of about \$780 million cif.

10. In response to the energy crisis the Government has decided to accelerate the development of local energy sources, especially hydropower and geothermal energy. These will be supplemented with nuclear energy in the 1980's. The transport sector, which now accounts for 40% of total energy consumption, is likely to continue to be the major consumer of energy. The growth in demand for energy will therefore be influenced by the pattern of expansion in this sector. In any event, total demand for energy is expected to grow at about 10% a year, and even with more rapid development of natural power sources, petroleum would still account for more than 90% of total energy needs by 1980. The Philippines does not have any commercial oil fields, but the Government has taken steps to encourage more exploration.

Growth Prospects

11. The abrupt deterioration in the external terms of trade since the middle of 1974, and the recession in the economies of key trading partners, together with uncertainty about how quickly they will recover, now threatens some of the Philippines' recent economic gains even though the Government remains committed to maintaining the growth momentum which began in 1973 and providing for a continued increase in incomes and employment. The high priority accorded to expanding employment opportunities - in the short-term as well as the long-term - stems from the fact that unemployment and underemployment are still high and the labor force continues to grow at 3% a year.

12. Priority is also being given to expanding food production for the domestic market, to expanding export production and to accelerating development of local energy resources. Quantities of cereal imports declined in 1974 because of the significant increase in agricultural output, especially rice. However, the value of food imports increased somewhat due to the large increase in world food prices and is estimated to be about \$250 million for 1974. The Government is continuing its efforts to achieve food self-sufficiency 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 improvement in the external debt burden and international reserve position in the last two years the Philippines now has the capacity to borrow externally larger amounts of capital in support of its development program, if capital is made available.

13. Maintaining a GNP growth rate of about 7 percent a year in real terms during the next few years will depend heavily on the buoyancy of the domestic market. The prospects are for continued expansion in agriculture with a 4-5 percent increase in production in the year ahead. With a few exceptions, industries are operating at relatively high levels of capacity utilization. Increased investments will be needed in a wide range of consumer and intermediate goods industries. A number of big projects are proposed in mining, wood processing, fertilizer, steel and shipbuilding which are likely to push up the private investment rate from recent levels of about 16% of GNP to perhaps 22 percent by the latter part of the decade. The public infrastructure program that was approved in 1973, which called for outlays of about P 12 billion at current prices in FY74-77, has become outdated because of the subsequent rapid inflation and changes in investment priorities as a result of the energy crisis. A new program has not been finalized, but the Government is putting more emphasis on developing nuclear and indigenous power resources and on irrigation, feeder roads and other projects to support increased food and export production. The Government has made considerable progress in recent years in building up its capacity 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 is projected to rise from the present level of 3% to about 4% by 1977.

Balance of Payments

14. Merchandise export receipts are projected to increase by a total of about 30% in 1975 and 1976, with only a small increase in the unit value of exports. Import payments are projected to increase by a total of almost 40% in the same period, including a 30% increase in prices. A cumulative

decline in the external terms of trade of about 23 percent during this period would probably wipe out the gains made in the recent export price boom and return the terms of trade to the level prevailing in 1972. However, the outcome for the balance of payments is quite sensitive to assumptions about external prices and without the projected deterioration in the terms of trade, for example, the projected trade deficit of \$1.2 billion in 1976 would be reduced by about \$1 billion.

15. The total foreign exchange requirements for meeting the current account deficit and amortizing loans during 1975 and 1976 would be about \$2.3 billion. About \$700 million would be provided by direct investment and short-term trade finance and about \$700 million would come from suppliers' credits and commercial commodity financing. Disbursements of project finance to the public sector, from the present pipeline, would amount to about \$300 million. The balance of the remaining capital inflow of about \$200 million in 1975 and \$400 million in 1976 could be financed by the Central Bank through short and medium-term borrowing. Net reserves, however, would be negligible by 1976 and unless additional capital were made available in the form of development aid, the Government would be forced to consider a reduction in its growth targets for the rest of the decade.

16. Recent important gains in reducing the external debt burden and in improving the external reserve would be jeopardized if the banking system had excessive recourse to short and medium-term borrowing abroad. Fortunately, some assistance may be forthcoming from the IMF. In addition, foreign donors should consider extending quick-disbursing commodity loans with long maturities, which would make an important contribution to maintaining growth and a manageable balance of payments position in 1975. There is considerable scope for additional medium and long-term loans from foreign donors to finance the much larger capital goods imports projected for 1976. The Philippine Consultative Group reviewed the improved foreign exchange position at its meeting in December 1974 and accepted the need for some official commodity aid in addition to rising levels of commitments for development projects to support the Philippines' increased development program. If the projected inflows on the capital account are forthcoming and if the presently identified shortfalls in foreign exchange availabilities are met with an appropriate combination of medium and long-term loan capital as suggested, management of the external debt would not present serious problems. Medium and long-term debt outstanding would rise from \$2 billion this year to about \$3 billion by 1976 but the ratio of debt service payments to exports would fall from 15 percent this year to about 13 percent in 1976. The Philippines would still be in a position to contract substantial amounts of external debt during the final years of the decade although this would lead to an increase in the debt service ratio to about 16-17 percent by 1980. The Philippines is already creditworthy for substantial Bank lending. Moreover, at present, the Bank/IDA share in total debt outstanding is about 9 percent and its share in debt service is about 5 percent. Even with a substantially higher level of Bank lending, these shares would not be expected to increase significantly in the years ahead.

17. During the last two years, the Government has significantly improved its fiscal performance with taxes increasing by more than an average of 40 percent each year. Nevertheless, the Government's ambitious development program, which would increase public investment from the current level of 3 percent of GNP to about 5 percent by the end of the decade, will continue to require resources in excess of the foreign capital which will become available for financing the import component of development projects. Some financing of local currency expenditures will be justified, especially for projects of economic and social importance which need only limited amount of foreign exchange.

PART II - BANK GROUP OPERATIONS IN THE PHILIPPINES

18. The Philippines has received 28 Bank loans and three IDA credits totalling \$619 million, net of cancellations. About 50 percent of the Bank/IDA lending, about \$306 million, has been for infrastructure projects in power, transportation, water supply and for education whilst \$25 million has been for population. The remainder has been divided about equally between agriculture and industry. About \$143 million of this has been for irrigation, livestock, rice processing and rural credit and about \$145 million for industry in four loans for the Private Development Corporation of the Philippines and one loan for the Development Bank of the Philippines. There has been a marked improvement in the way Bank financed projects in the Philippines have been executed in the last two or three years compared with experience in the 1960's 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 February 28, 1975 and notes on the execution of on-going projects.

19. The Bank's lending program has been designed to support an increased Philippine development effort with particular emphasis on agriculture and infrastructure. Shortages of domestic financial revenues and poor administration led to low investment for these purposes in the past. The last two 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, compared to an average of about \$30 million a year in the previous five years.

20. Five loans in the Philippines totalling \$153 million - Population, Sixth Power, Inter-Island Shipping, Fourth Private Development Corporation and Tarlac Irrigation have already been approved by the Executive Directors in FY75. In addition to the present Rural Development proposal, a loan for small and medium industries should be ready for consideration this fiscal

year; this loan would provide about \$30 million for relending to small and medium sized firms and to establish Regional Technical Assistance Centers to serve these firms. This would bring total Bank lending in the Philippines in FY75 to \$208 million.

21. IFC has made commitments in the Philippines totalling \$76.1 million for investments in thirteen 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 February 28, 1975, \$18.1 million have been sold, \$0.4 million cancelled and \$2.3 million repaid, leaving a net portfolio of \$55.3 million. On the same date \$8.8 million was undisbursed. Preliminary proposals have been received for an aluminum smelter and other projects in the pulp and paper, dinnerware, metal alloys and shipbuilding fields.

PART III - THE ECONOMY OF MINDORO

22. Mindoro island, situated some 45 km south of Luzon, has a population of about 500,000. Administratively the island is divided into two provinces; Oriental Province and Occidental Province. It covers about one million ha of which about 550,000 are rough, mountain land. About 270,000 ha - slightly more than half of the agricultural land - is used for production of rice, upland crops and coconut. About 70% of the labor force is engaged in agriculture, fisheries and forestry; seasonal underemployment is high, especially in areas where only one rice crop is grown. There has been heavy immigration from Luzon, especially during the last 15 years. The original inhabitants of the island, numbering about 80,000 and known collectively as the Mangyans, who traditionally practise shifting cultivation, have been forced back into the mountains by land pressure on the coastal plains.

23. Before the present phase of the agrarian reform program, Occidental Mindoro was characterised by large estate holdings and absentee ownership. The tenancy rate was about 80% and average farm size was 4.6 ha. By contrast, 80% of the farms in Oriental Mindoro were worked by owner-operators, and average farm size was 2.2 ha. The Department of Agrarian Reform has therefore concentrated its activities so far in Occidental Mindoro. President Marcos recently decreed that the program would be implemented on all tenanted rice and corn holdings down to 7 ha. When this phase is completed on Mindoro, some 103,000 ha (or 84% of the island's rice and corn lands) would be cultivated by about 31,000 owner operators (or 72% of the farmers). About 12,000 farmers on holdings under 7 ha would probably remain under some form of leasehold which provides for payment of fixed rent and is therefore a far better arrangement than share cropping which has now been abolished.

24. Rice is by far the most important crop on Mindoro. It is grown on about 100,000 ha in the wet season, about evenly distributed between the two provinces, and 50,000 ha in the dry season, almost all in Oriental

Mindoro. Rainfed upland corn is grown in both provinces while coconut, banana and fruit trees are also important in Oriental Mindoro. The Government's Masagana 99 program, launched two years ago to provide intensified agricultural services and supervised credit with the objective of doubling rice yields, is progressing well in Mindoro. The Philippine National Bank, which is an important institution in the Masagana program has three branches on the island channelling credit to farmers. Eighteen rural banks also provide production loans, while the Development Bank of the Philippines, with a branch in each province, provides medium and long-term credit. The increased institutional credit has helped offset the reduction in credit which was provided by landlords before the agrarian reform program got underway.

25. A major obstacle to development in Mindoro is poor transportation. The two provinces are not connected by road. In Oriental Mindoro, which has a national highway running north and south along the coast, most produce is moved by road. But due to poor design and heavy traffic conditions, the highway is deteriorating rapidly. There are few good provincial and farm to market roads; many wooden bridges are dilapidated and unusable. The roads in Occidental Mindoro are much worse. There is no north to south through road; numerous small piers have been built along the coast and much farm produce is moved by sea in small boats at high cost. Regular ferry services for passengers and goods run between Calapan in Oriental Mindoro and Batangas and, also between San Jose in Occidental Mindoro and Manila.

26. Agricultural production and rural incomes on Mindoro are limited by lack of irrigation, inadequate supplies of certified seed and extensive damage to crops by rats. A further problem in the Lake Naujan area of Oriental Mindoro is schistosomiasis (an endemic disease). In addition to improving transportation, the proposed rural development project would tackle all these problems and help the hill tribes mentioned in paragraph 22.

27. In spite of its proximity to Manila, Mindoro has remained relatively backward. The island has great potential for food-grain production; and since it does not suffer frequent damage from typhoons, the Government proposes to develop it as an alternative to Central Luzon in supplying food for metropolitan Manila. Typical per capita farm incomes on Mindoro are currently 30% to 60% of national per capita GNP. Therefore development of the island would contribute both to food production, and to improving the living standards of the rural poor.

IV. THE PROJECT

28. The Government's development strategy includes priority for development of relatively backward regions with good agricultural potential. The objectives are to help correct regional economic and social imbalances, to assist national programs for food grain self-sufficiency and to build up Government services for planning and implementing projects in rural areas.

The proposed rural development project, the first Bank-assisted project of its kind in the Philippines, was chosen to meet these objectives. It would directly benefit about 40 percent of Mindoro's population by raising per capita incomes on rice farms (see para 42), and would indirectly benefit almost everyone on the island. The project was prepared by the Government with assistance from the FAO/IBRD Cooperative Program. A Bank mission appraised the project in June 1974 and negotiations were held in March 1975. The leader of the Government negotiating team was Ambassador Eduardo Z. Romualdez. The Appraisal Report No. 633a-PH on the proposed project is being circulated separately to the Executive Directors. Annex III provides a loan and project summary.

Description of the project

29. The project would improve water control, roads and port facilities on Mindoro Island. It would also provide an agricultural program, schistosomiasis control and assistance to minority Mangyan tribes. The project would include:

- (a) construction and improvement of about 150 km of national highways in Oriental Mindoro and 280 km of provincial roads in both provinces (accounting for over half of the total costs);
- (b) improvement and extension of the Pula and Baco-Bucayao national irrigation systems to serve 12,000 ha of rice land;
- (c) improvement and extension of about 2,000 ha of communal irrigation systems in Oriental Mindoro and about 1,000 ha in Occidental Mindoro;
- (d) establishment of river gauging and meteorological stations to improve the hydrological data base in Mindoro;
- (e) introduction of watershed protection programs in four river watersheds;
- (f) technical assistance for detailed highway engineering and supervision of construction;
- (g) consultant services for studies and, if economically feasible, detailed engineering of a national highway in Occidental Mindoro, and possible road links with Oriental Mindoro.
- (h) improvements to Calapan port by rehabilitating and upgrading the existing pier and deck, reclaiming and resurfacing land to increase cargo storage space, and constructing a passenger building and a concrete landing stair;

- (i) an agricultural program to construct and equip two seed testing laboratories and to carry out a rat control program on 90,000 ha of paddy land;
- (j) control of schistosomiasis in Oriental Mindoro through health education, construction of communal domestic water supplies, drainage of 460 ha of swampland, provision of about 10,000 water-seal toilets, and treatment of persons suffering from the disease;
- (k) assistance to minority Mangyan tribes through mobile medical services, construction of access roads and provision of legal and technical assistance and agricultural inputs.

Project Execution and Management

30. A number of national departments and agencies would be responsible for implementing the project. The National Irrigation Administration (NIA) would carry out the irrigation and water control component; the Department of Public Highways would be responsible for the roads component; the Department of Public Works would be responsible for improving Calapan port; the Department of Health would be responsible for implementing the schistosomiasis control program; the Department of Agriculture would carry out the seed and rat control programs; and the Presidential Assistant on National Minorities (PANAMIN) would be responsible for Mangyan assistance.

31. To coordinate the work of these departments and agencies, the Government would employ a Project Director who would report directly to the Cabinet Coordinating Committee for Rural Development. The Project Director would have a small technical and management staff including a monitoring unit which would assess regularly the agro-economic aspects of the project. The Project Director who has already been nominated by the Government would be employed within three months of loan signing (Section 3.02(a) of the draft Loan Agreement).

32. The Project Director would also be responsible for approving detailed annual work programs and budgets of the departments and agencies. To enable him to perform this function effectively, he would be chairman of a Steering Committee which would consist of senior officers from each of the departments and agencies involved in the project plus the two provincial Governors. The Steering Committee would be established within three months of loan signing (Section 3.02(b) of the draft Loan Agreement).

33. At the provincial level, the senior officer in each department and agency would be the project officer for his organization. The project officers would be members of the Provincial Development Council whose Chairman would be the Governor of each province. The Councils would include a representative of the Philippine National Bank and the rural banks. They would meet as needed to coordinate project implementation and resolve inter-agency problems at the provincial level. Intra-agency coordination would

be handled through normal departmental and agency chains of command through regional offices to national headquarters. To resolve major conflicts which remain, the Governors would have direct access to the Project Director.

34. The alternative of a centralised project organization was considered and discussed with the Government. However, it was concluded that, in this instance, a project authority would not be appropriate because it would tend to cut across the responsibilities of the existing departments and agencies and might weaken, rather than strengthen, their effectiveness in Mindoro.

35. The 3,000 ha of communal irrigation systems to be constructed or improved under the project would be largely pilot in nature. They would allow NIA to work out policies and procedures for planning, designing, building, operating, maintaining and recovering the cost of such small, scattered systems. The standards, policies and procedures adopted for Mindoro would have far reaching implications for the country's 300,000 ha of communal gravity and 150,000 ha of small pump irrigation systems. The Government has agreed to submit a comprehensive plan for the communal systems included in the project to the Bank for approval. The proposed schistosomiasis control program, though basically sound, needs to be worked out in more detail. Again, policies and procedures to control the disease on Mindoro would have wider relevance for the Philippines as a whole, particularly the islands of Leyte, Samar and Mindanao. The Government has agreed to revise its plan and submit it to the Bank for approval. Agreement between the Government and the Bank on plans for communal irrigation and schistosomiasis control would be conditions of disbursement for those parts of the project (Section 2.02 of the draft Loan Agreement). The Government would also ensure that a qualified seed technician is employed to work at each of the two seed laboratories (Section 3.03 of the draft Loan Agreement) and would furnish the Bank, within two years, a proposal to recover the cost of rodenticides from farmers (Section 3.09 of the draft Loan Agreement). In order to provide adequate agricultural extension services on Mindoro, the Government would gradually increase the number of extension workers so that by 1980 and thereafter, there would be one extension technician to not more than 300 farmers in each of the provinces. The Government would also establish and maintain an agricultural development coordinating council in each province for the purpose of coordinating the provision of agricultural services (Section 3.04(a) and (b) of the draft Loan Agreement).

Cost Recovery for the Irrigation Component

36. The Pula and Baco-Bucayao national irrigation systems would be improved, operated and maintained to the standard of the recently approved Tarlac Irrigation Systems Improvement Project (Loan No. 1080-PH). Water charges for these irrigation systems would therefore be the same as in the Tarlac Project. NIA would raise water charges gradually over a period of 5 years from completion of project works to a level sufficient to cover operation and maintenance cost and to recover (without interest) the total

investment over not more than the 50-year life of the systems taking into account the farmers' incentives and capacity to pay. A gradual increase in irrigation fees over a period of five years from completion of construction to a level equivalent to about 3.5 Cavans of paddy per ha in the wet season and 4.4 Cavans in the dry season would meet the requirements (Section 4.03(b) iii of the draft Loan Agreement).

Project Cost and Financing

37. The project is estimated to cost a total of US\$50 million equivalent of which US\$22 million would be in foreign exchange. The Bank would finance half the total project cost, that is the foreign exchange cost plus US\$3 million of local costs. The Government would finance the balance of \$25 million. Each implementing department and agency would maintain a separate account for the project and would submit all budget requests to the Project Director for approval. The Project Director would forward approved requests to the Budget Commissioner, who would provide the necessary funds directly to the implementing agencies in accordance with normal Government procedures which are satisfactory to ensure the continuous and timely flow of project funds.

Procurement

38. Each department and agency would be responsible for its own procurement under the project in accordance with the agreed procedures outlined below, but would submit all documents to the Project Director for information. Equipment and vehicles costing about US\$3.1 million would be procured after international competitive bidding in accordance with Bank Group Guidelines. A preference limited to 15% of the cif price of imported goods or the custom duty, whichever is lower, would be extended to local manufacturers in the evaluation of bids. Procurement of off-the-shelf items costing less than US\$10,000 each would be purchased through normal Government procurement procedures which are satisfactory; the total for all such items would not exceed US\$250,000.

39. Because of their size, location and seasonal nature, civil works for the national irrigation systems (US\$5.2 million) would not be suitable for international competitive bidding. In the past, such works have failed to attract much interest even among local contractors. Therefore, in order to stimulate the local contracting industry in Mindoro, NIA would investigate ways of expanding the execution of civil works by contract, so that the amount of work done by force account on the national systems would not exceed 40 percent of the total cost of the work. The balance would be awarded on the basis of competitive bidding advertized locally and in accordance with local procedures, which are satisfactory. The communal irrigation systems (US\$0.9 million), which are smaller and more scattered than the national systems, would be constructed either by NIA force account or by farmers under NIA supervision.

40. Contracts for civil works on the national highways (US\$8.6 million), together with the provincial roads in Oriental Mindoro and the San Jose district of Occidental Mindoro (US\$4.4 million), would be awarded following international competitive bidding in accordance with Bank Group Guidelines. To attract both foreign and local bidders, contracts would be placed on the basis of individual sections or combinations of sections for the works. The roads in Mamburao and Sablayan districts of Occidental Mindoro (US\$1.3 million), which are isolated from major population centers, would be constructed by force account by the Department of Public Highways. The improvements to Calapan port (US\$0.2 million) would be carried out by contract. Because of the small size of the works, contracts would be awarded on the basis of competitive bidding advertised locally and in accordance with local procedures, which are satisfactory. Civil works for other components of the project (US\$2.3 million) would be small and scattered and would not be suitable for competitive bidding. They would be carried out by force account using mostly manual labor. All costs of equipment and civil works shown in this and paragraphs 38, 39 and 40 are base costs i.e. before contingencies.

Disbursements

41. Disbursements would be made at the rate of 100 percent against the cif cost of directly imported equipment, 100 percent against the ex-factory cost of locally manufactured equipment and 65 percent for imported equipment procured locally. For services of technical assistants and consultants, disbursements would cover 100 percent of the foreign exchange cost, or 60 percent of total costs. For civil works contractors' mobilization and imported equipment, disbursements would be at 100 percent of foreign exchange cost. Other disbursements for civil works would be at the rate of 50% against certified monthly progress payments or expenditures.

Economic Justification

42. A central purpose of the project is to raise farm incomes. Per capita incomes on typical size farms would increase from a weighted average of about \$90 at present to about \$140 by 1985. The project would thus benefit directly some 30,000 poor paddy farmers, who with their families, comprise about 200,000 people or 40% of the island's population. It would also create the equivalent of some 13,000 seasonal agricultural jobs. At full development, annual paddy production from the island as a result of the project would increase by 100,000 tons or 40% above present level. The increased production would provide enough rice to feed over half a million people a year. The project would improve the transportation system on Mindoro and thus provide further benefits to the rural population; it would also help control schistosomiasis and would benefit the Mangyan tribes who now live in primitive conditions. Thus the project would generally revitalize Mindoro and benefit nearly everyone on the island.

43. The economic rate of return on the national highway improvements is expected to be about 18%. For the irrigation systems, agricultural program and provincial roads taken together, the rates of return range between 15% and 25%. Sensitivity analysis indicates that under a number of adverse assumptions, the rates of return would not fall below 10%. No attempt was made to quantify the benefits from the other project components, but they would all be justified as improving the incomes and living conditions of Mindoro's rural population.

PART V - LEGAL INSTRUMENT AND AUTHORITY

44. The draft Loan Agreement between the Republic of the Philippines and the Bank, the Report and Recommendation of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement of the Bank and the text of the Resolution approving the proposed loan are being distributed separately to the Executive Directors. The draft Loan Agreement substantially conforms to the normal pattern of loans for rural development projects.

PART VI - RECOMMENDATION

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

Robert S. McNamara
President

Attachments
March 27, ..., 1975

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
GNP PER CAPITA US\$ (ATLAS BASIS) ¹	160 ^a	280 ^b	220 ^b	370 ^b	310 ^b
DEMOGRAPHIC					
Crude birth rate (per thousand)	..	45 ^c	43 ^c	40 ^d	28
Crude death rate (per thousand)	..	12 ^e	10 ^e	15 ^f	8
Infant mortality rate (per thousand live births)	..	80	80-90	120-150	..
Life expectancy at birth (years)	51 ^a	58	59	55	65
Gross reproduction rate ²	..	3.3	3.2	2.9	2.5
Population growth rate ³	3.0	3.0 ^f	3.1 ^f	2.5 ^f	2.2 ^f
Population growth rate - urban	2 ^{g,h}	4 ^h	5 ⁱ	7 ⁱ	6 ^j
Age structure (percent)					
0-14	46	43	..	42	40
15-64	51	53	..	54	56
65 and over	3	4	..	4	4
Dependency ratio ⁴	1.5 ^a	1.3 ^{l,m}	..	1.0 ^a	1.4 ^a
Urban population as percent of total					
Family planning: No. of acceptors cumulative (thous.)	30 ^{g,h}	32 ^h	25 ⁱ	39 ⁱ	41 ^k
No. of users (% of married women)	..	409	490	282	..
..	..	8	10	4	..
EMPLOYMENT					
Total labor force (thousands)	9,100	13,200 ⁿ	16,900 ^m	16,000	10,200 ^o
Percentage employed in agriculture	61	56 ^o	77	66	47 ^o
Percentage unemployed	6	7 ^o	1	..	5 ^o
INCOME DISTRIBUTION					
Percent of national income received by highest 5%	29 ^{p,q}	25 ^{r,s}	17 ^{o,p}	33 ^{q,r}	16 ^u
Percent of national income received by highest 20%	56 ^{p,q}	54 ^{r,s}	46 ^{o,p}	61 ^{q,r}	36 ^u
Percent of national income received by lowest 20%	5 ^{p,q}	4 ^{r,s}	7 ^{o,p}	3 ^{q,r}	8 ^u
Percent of national income received by lowest 40%	13 ^{p,q}	12 ^{r,s}	17 ^{o,p}	9 ^{q,r}	24 ^u
DISTRIBUTION OF LAND OWNERSHIP					
% owned by top 10% of owners	..	..	..	..	28
% owned by smallest 10% of owners	..	..	..	..	2
HEALTH AND NUTRITION					
Population per physician	..	9,100 ^s	7,970	2,220	2,210 ^t
Population per nursing person	..	5,390 ^s	6,650	1,880	1,760 ^t
Population per hospital bed	1,180 ^u	850 ^{v,ab}	850	490	1,920
Per capita calorie supply as % of requirements ⁵					
Per capita protein supply, total (grams per day) ⁶	80 ^w	87 ^v	96 ^x	110 ^x	106 ^{y,y}
Of which, animal and pulse	48 ^w	53 ^v	51 ^x	78 ^x	72 ^{y,y}
Death rate 1-4 years ⁷	9 ^u	7 ^v	..	15 ^{am}	..
EDUCATION					
Adjusted ⁸ primary school enrollment ratio	91 ^a	112 ^{d,s}	80 ^q	111 ^a	104
Adjusted ⁸ secondary school enrollment ratio	26	45 ^g	13 ^q	28	41
Years of schooling provided, first and second level	10	10	12	13	12
Vocational enrollment as % of sec. school enrollment	14	10 ^{d,aa}	12 ^{v,ao}	14	15 ^{af}
Adult literacy rate %	..	72 ^{ad}	70 ^{ad,af}	55 ^{ae}	81 ^{o,ag}
HOUSING					
Average No. of persons per room (urban)	..	..	..	2.2 ^{ah,aj}	..
Percent of occupied units without piped water	86 ^{ao}	66 ^{d,ao}	..	64 ^{aj,am}	60 ^{an}
Access to electricity (as % of total population)	17 ^{aj}	23 ^d	17	41 ^{aj,aj}	62
Percent of rural population connected to electricity	..	6 ^d	13	..	40
CONSUMPTION					
Radio receivers per 1000 population	22	45 ^b	78	89	126
Passenger cars per 1000 population	3	8	5	4	2
Electric power consumption (kwh p.c.)	101	229	120	245	308
Newspaper consumption p.c. kg per year	1.3 ^{ak}	1.8 ^{ak}	1.0	2.0	3.4

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 under 15 and 65 and over age brackets to those in labor force bracket of ages 15 through 64.

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. 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; ^c 1965-70 UN estimate; ^d 1961; ^e 1946-49; ^f 1960-72; ^g 1956-60; ^h For the definition of urban, see UN Demographic Yearbook, 1971, p. 156; ⁱ Over 10,000 population; ^j Population of the localities within the municipality limits of administrative centers of provinces and districts; ^k Urban centers with 5,000 or more people; ^l Ratio of population under 15 and 65 and over to total labor force; ^m Employed labor force; ⁿ 1961; ^o Households; ^p Urban only; ^q 1968; ^r Personal disposable income as a function of number of households; ^s Personnel in government services only; ^t Number on the register, not all working in the country; ^u 1962; ^v 1969; ^w 1960-62; ^x 1964-66; ^y Tentative; ^{aa} Includes overage students; ^{ab} Public education only; ^{ac} Including rural hospitals; ^{ad} Data on vocational education refer to public schools and include technical education at the post-secondary level; ^{ae} 15 years and over; ^{af} 6 years and over; ^{ag} 1971; ^{ah} Definition of literacy unknown; ^{aj} Total, urban and rural; ^{ak} Based on results of sample survey; ^{al} As a percentage of total dwellings; ^{am} Imports only; ^{an} Wage and salary income of households; ^{ao} Water piped inside; ^{ap} 1966-67; ^{aq} Inside or outside.

* 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.

A.M.

ECONOMIC INDICATORS ^{1/}

GRASS NATIONAL PRODUCT IN 1973

ANNUAL RATE OF GROWTH (% constant prices)

	Pesos Mln.	%	1960-65	1965-70	1971	1972	1973
GNP at Market Prices	71,766	100.0	5.5	5.7	6.5	4.3	10.0
Gross Domestic Investment	13,942	19.4	12.6	1.6	5.9	-3.5	9.4
Gross National Saving	17,013	23.7	15.0	3.6	13.2	-8.2	49.1
Current Account Balance	-3,071	2.4	.	.	.	.	.
Exports of Goods, NPS	16,836	23.5	11.0	4.5	5.0	1.5	18.7
Imports of Goods NPS	13,000	18.1	7.3	7.2	5.4	2.7	13.1

OUTPUT LABOR FORCE AND
PRODUCTIVITY IN 1973 ^{2/}

	Value added		Labor Force ^{3/}		V. A. Per Worker	
	US\$ Mln.	%	Mln.	%	US \$	%
Agriculture	1,494	32.2	7.0	52.9	213	61.0
Industry	1,228	26.4	2.0	15.2	614	175.9
Services	1,922	41.4	4.0	31.6	481	137.8
Unallocated	.	.	0.3	0.2	.	.
	4,644	100.0	13.3	100.0	349	100.0

GOVERNMENT FINANCE ^{4/}

	General Government			Central Government			
	(Mln.)	% of GDP		(Pesos Mln.)	% of GDP		
	197	197	196-7	1973	1971	1972	1973
Current Receipts	6,989	8.9	8.3	9.8
Current Expenditure	5,995	8.0	7.6	8.4
Current Surplus	994	0.9	0.7	1.4
Capital Expenditures	1,444	0.5	1.6	2.0
External Assistance (net)	249 ^{5/}	..	0.7 ^{5/}	.4

MONEY, CREDIT and PRICES

	1965	1969	1970	1971	1972	1973
	(Million pesos outstanding end period)					
Money and Quasi Money	5,136	8,969	10,140	11,720	13,243	16,857
Bank credit to Public Sector ^{7/}	980	3,565	3,479	3,907	4,778	6,541
Bank credit to Private Sector	8,223	13,139	15,396	18,010	22,892	25,377

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	21.1	27.0	25.0	23.2	23.5	23.5
General Price Index (1965=100)	100.0	111.4	137.7	159.3	175.3	218.4
Annual percentage changes in:						
General Price Index	2.2	1.3	23.6	15.7	10.0	24.6
Bank credit to Public Sector	..	27.9	-2.4	12.3	22.3	36.9
Bank credit to Private Sector	..	9.0	17.2	17.0	27.0	10.9

^{1/} No projections are provided in this annex since existing projections are being revised.

^{2/} Constant 1967 prices.

^{3/} Total labor force; unemployed are allocated to sector of their normal occupation. "Unallocated" consists mainly of unemployed workers seeking their first job.

^{4/} Based on "actual" figures from the "Cash Budget". Data prior to 1971 not available.

^{5/} Counterpart funds from external commodity aid.

^{6/} Economic mission estimates.

^{7/} Covers credits from all important financial institutions.

..not available
.. not applicable

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

	1971	1972	1973
		(Million US\$)	
Exports of Goods, NPS	1,397	1,432	2,443
Imports of Goods, NPS	1,422	1,484	2,008
Resource Gap (deficit = -)	-25	-52	-435
Interest Payments (net)	-76	-92	-53
Workers' Remittances			
Other Factor Payments (net)	-24	-33	-60
Net transfers	134	188	234
Balance on Current Account	+9	+11	556
Direct Foreign Investment	-4	-22	77
Net MLT Borrowing			
Disbursements	338	390	377
Amortization	302	250	335
Subtotal	36	140	42
Capital Grants			
Other Capital (net) ^{1/}	134	15	-43
Other items n.e.i. ^{2/}	-144	-106	-38
Increase in Reserves (+) ^{3/}	+31	+38	+394
Gross Reserves (end year) ^{4/}	524	735	1,416
Net Reserves (end year) ^{5/}	-20	80	753
Int. Reserves (end year) ^{5/}	244	282	876

Fuel and Related Materials

Imports of Goods, NPS	1,422	1,514	2,008
of which: Petroleum	141	147	184

RATE OF EXCHANGE

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

Since April 1972

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

MERCHANDISE EXPORTS (AVERAGE 1971-73)

	US\$ Mln.	\$
Coconut Products	284.7	21.5
Sugar Products	244.3	18.4
Forest Products	314.3	23.7
Mineral Products	254.0	19.2
Fruits and other agricultural products	87.7	6.6
Other manufactures	140.7	10.6
Total	1,325.7	100.0

EXTERNAL DEBT, DECEMBER 31, 1973 ^{6/}

	US\$ Mln
Public Debt, incl. guaranteed	829.9
Non-Guaranteed Private Debt	1,041.0
Total outstanding and disbursed	1,870.9

DEBT SERVICE RATIO FOR 1973 ^{7/}

	\$
Public Debt, incl. guaranteed	7.9
Non-guaranteed Private Debt	10.4
Total outstanding and disbursed	18.3

IBRD/IDA LENDING, (February 28, 1975 (Million US\$))

	IBRD	IDA
Outstanding and Disbursed	185.3	9.2
Undisbursed	353.7	23.0
Outstanding incl. Undisbursed	539.0	32.2

- ^{1/} Includes SPR's, 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/} Excludes 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.

.. not available
 . not applicable

PHILIPPINESA. Statement of Bank Loans and IDA Credits to the Philippines
as of February 28, 1975

Loan or Credit Number	Year	Borrower	Purpose	(US\$ millions)		
				Amount Bank	less IDA	Cancellations Undisbursed
12 loans	fully	disbursed		187.0		
637-PH	1969	Republic of the Philippines	Irrigation	34.0		6.2
720-PH	1971	- " -	Rice Processing and Storage	14.3		13.1
731-PH	1971	- " -	First Highway	8.0		2.8
809-PH	1972	National Power Corporation	Power	22.0		21.6
296-PH	1972	Republic of the Philippines	Power	-	10.0	2.9
823-PH	1972	- " -	Livestock	7.5		5.8
349-PH	1973	- " -	Second Education		12.7	12.6
891-PH	1973	- " -	Fisheries	11.6		10.5
939-PH	1973	- " -	Ports	6.1		5.9
950-PH	1973	- " -	Second Highway	68.0		57.0
472-PH	1974	- " -	Aurora - Penaranda Irrigation		9.5	7.5
984-PH	1974	- " -	- " -	9.5		9.5
998-PH	1974	- " -	DFC - DBPI	50.0		50.0
1010-PH	1974	- " -	Third Rural Credit	22.0		18.8
1034-PH	1974	National Power Corporation	Power	61.0		60.5
1035-PH	1974	Republic of the Philippines	Population	25.0	-	25.0
1048-PH	1974	- " -	Shipping	20.0	-	20.0
1052-PH	1974	Philippine National Bank	DFC	30.0	-	30.0
1080-PH ^{1/}	1975	Republic of the Philippines	Tarlac Irrigation	17.0	-	17.0
				<u>593.0</u>	<u>32.2</u>	<u>376.7</u>
of which has been repaid (Bank and 3rd Parties)				<u>54.0</u>	<u>-</u>	
Total now outstanding				<u>539.0</u>	<u>32.2</u>	
Amount sold			13.3			
of which has been repaid (3rd parties)			<u>12.1</u>	<u>1.2</u>	<u>-</u>	
Total now held by Bank and IDA (prior to exchange rate adjustments)				<u>537.8</u>	<u>32.2</u>	
Total undisbursed				<u>353.7</u>	<u>23.0</u>	<u>376.7</u>

1/ Not yet effective.

B. Statement of IFC Investments in the Philippines as of February 28, 1975

<u>Fiscal Year</u>	<u>Company</u>	<u>(Amount US\$ million)</u>		
		<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	Filipinos 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>13.8</u>	<u>7.1</u>	<u>20.9</u>
	Now held	<u>48.8</u>	<u>6.5</u>	<u>55.3</u>
	Undisbursed	8.7	0.1	8.8

C. Project in Execution ^{1/}

Ln. No. 637-PH Upper Pampanga River Irrigation; US\$34.0 million Loan of August 18, 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. All work is expected to be completed in 1975 and the loan 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; 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

^{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.

in April, 1974 basically (i) to expand the scope of the project to include 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 Sec. M74-244 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 long before the revised Closing Date, June 30, 1977.

Ln. No. 731-PH Highway; US\$8.0 million Loan of April 14, 1971;
Closing Date: May 15, 1975

The construction of the Cotabato-Digos Road 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 project cost, allowing for the reduced scope of works, is still estimated at US\$15.8 million, the same as the appraisal estimate. Construction progress is slightly behind the revised work schedule, which foresees completion by May 31, 1975. Consulting services for detailed engineering of roads now constructed under the Second Highway Project (Loan 950-PH) were completed in late 1973. UNDP financed road feasibility studies and a highway technical assistance program, which also form part of the project, were completed in the same year. Technical Assistance to the Department of Public Highways is continuing with Bank financing under the Second Highway Project.

Ln. No. 809-PH and Fifth Power; US\$22.0 million and US\$10.0 million Loan
Cr. No. 296-PH and Credit of April 3, 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. After initial delays, the project is proceeding satisfactorily. All contracts have been awarded. Major equipment is being manufactured. Construction work has started on 230 kV transmission lines. NPC's financial situation has been improved by the imposition in July 1973 of a surcharge to cover increased fuel costs. A further tariff increase was approved, effective July 1, 1974. But due to recent inflation this would not enable NPC to achieve the covenanted rate of return of 8 percent. NPC is therefore considering another tariff increase in mid-1975.

Ln. No. 823-PH Livestock; US\$7.5 million Loan of May 25, 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 are now improving, and all funds are expected to be 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; Closing Date: June 30, 1979

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

The project will assist the Government to rehabilitate and open up 25,300 hectares of land in Central Luzon for year round irrigation for rice growing. It also provides for a study of irrigation development in Central Luzon. The loan became effective on August 22, 1974. It is progressing satisfactorily.

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

The proceeds of the loan will be relent to the Development Bank of the Philippines (DBP). The industrial portion of the loan (US\$48 million) will be used by DBP to make sub-loans to finance direct imports for medium and relatively large industrial projects. DBP will use the balance (US\$2 million) to finance about 1,300 smallholders in a pilot tree-farming project. The loan became effective on September 9, 1974. Since then, commitments for sub-loans totalling \$21.2 million have been made.

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

The Central Bank will relend the proceeds of the Loan (except for a small amount for an evaluation study) to participating banks. These will relend the funds to farmers and rural entrepreneurs to finance investment in farm mechanisation, 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 by local experts of the first, second and third rural credit projects. The loan became effective on August 27, 1974. It is progressing satisfactorily.

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

The project is helping the National Power Corporation (NPC) to finance a 100MW 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. NPC raised its tariff in July, 1974 to meet the covenanted rate of return of 8 percent. But due to recent inflation it would not be able to achieve this. NPC is therefore considering another tariff increase in mid-1975.

Cr. No. 349-PH Second Education; US\$12.7 million; Credit of January 5, 1973; Closing Date: December 31, 1976

The project will assist Government to improve such areas as education, planning, management and curriculum development, science teacher training, and training of technicians, skilled craftsmen and farmers. The project is currently a few months behind schedule, but the delay is being reduced through action by the project unit on civil works, designs and equipment procurement. The project is expected to be completed on schedule. Current problems include unexpected cost overruns (42% higher than the original estimate), difficulty in introducing reforms in admissions, and quality standards of project agricultural colleges. The government has agreed to finance overruns and is considering steps to solve the other problems. Disbursements are expected to start in the second half of FY75 and remain ahead of, or on, schedule until project completion.

Ln. No. 891-PH Fisheries; US\$11.6 million Loan of May 21, 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 December, 1975.

Ln. No. 939-PH Second Ports; US\$6.1 million Loan of October 24, 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. Bids for the civil works for both ports were opened on November 22, 1974, with only one bid received for each port. Bidding results, particularly that for the works at Cagayan de Oro, were substantially higher than the appraisal cost estimates and the consultants' estimate of August 1974. The works at Cagayan de Oro are expected to be re-bid, and the start of construction is expected to be delayed.

Ln. No. 950-PH Second Highway; US\$6.1 million Loan of December 12, 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.

Work has begun on twelve of the fourteen contracts. In line with world-wide inflation, costs have increased sharply during the past 12 months. 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, are progressing satisfactorily and a possible Third Highway project has already been identified. 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;
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. The loan is progressing satisfactorily.

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

The Government will relend 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.

Ln. No. 1052-PH Private Development Corporation of the Philippines
Loan of November 12, 1974; Closing Date: June 30, 1979

The project will assist in the financing of industrial projects in the Philippines. The Loan Agreement was signed on November 12, 1974. It became effective on February 7, 1975.

Ln. No. 1080-PH Tarlac Irrigation; US\$17.0 million; Loan of January
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 ground water pilot scheme, a water management training program and a national irrigation systems improvement study. The Loan Agreement was signed on January 27, 1975. It is expected to be effective before April 27, 1975.

PHILIPPINES

RURAL DEVELOPMENT PROJECT

Loan and Project Summary

Borrower: The Republic of the Philippines

Amount: US\$25 million equivalent

Terms: The loan would be for a term of 25 years, including a grace period of 7 years at an interest rate of 8.5 percent per annum.

Project Description: The project includes:

- (a) Improvement and extension of two national irrigation systems to serve 12,000 ha.
- (b) Improvement and extension of 3,000 ha of communal irrigation systems.
- (c) Hydro-meteorological studies.
- (d) A watershed protection program.
- (e) Construction and improvement of about 150 km of national highways and 280 km of provincial roads.
- (f) Improvement to Calapan Port.
- (g) An agricultural program to produce certified rice seed and control rats.
- (h) A schistosomiasis control program.
- (i) Assistance to minority Mangyan tribes.

PHILIPPINES

RURAL DEVELOPMENT PROJECT

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 - (f) Improvement to Calapan Port.
 - (g) An agricultural program to produce certified rice seed and control rats.
 - (h) A schistosomiasis control program.
 - (i) Assistance to minority Mangyan tribes.

Procurement:

The following procedures have been agreed: 1/

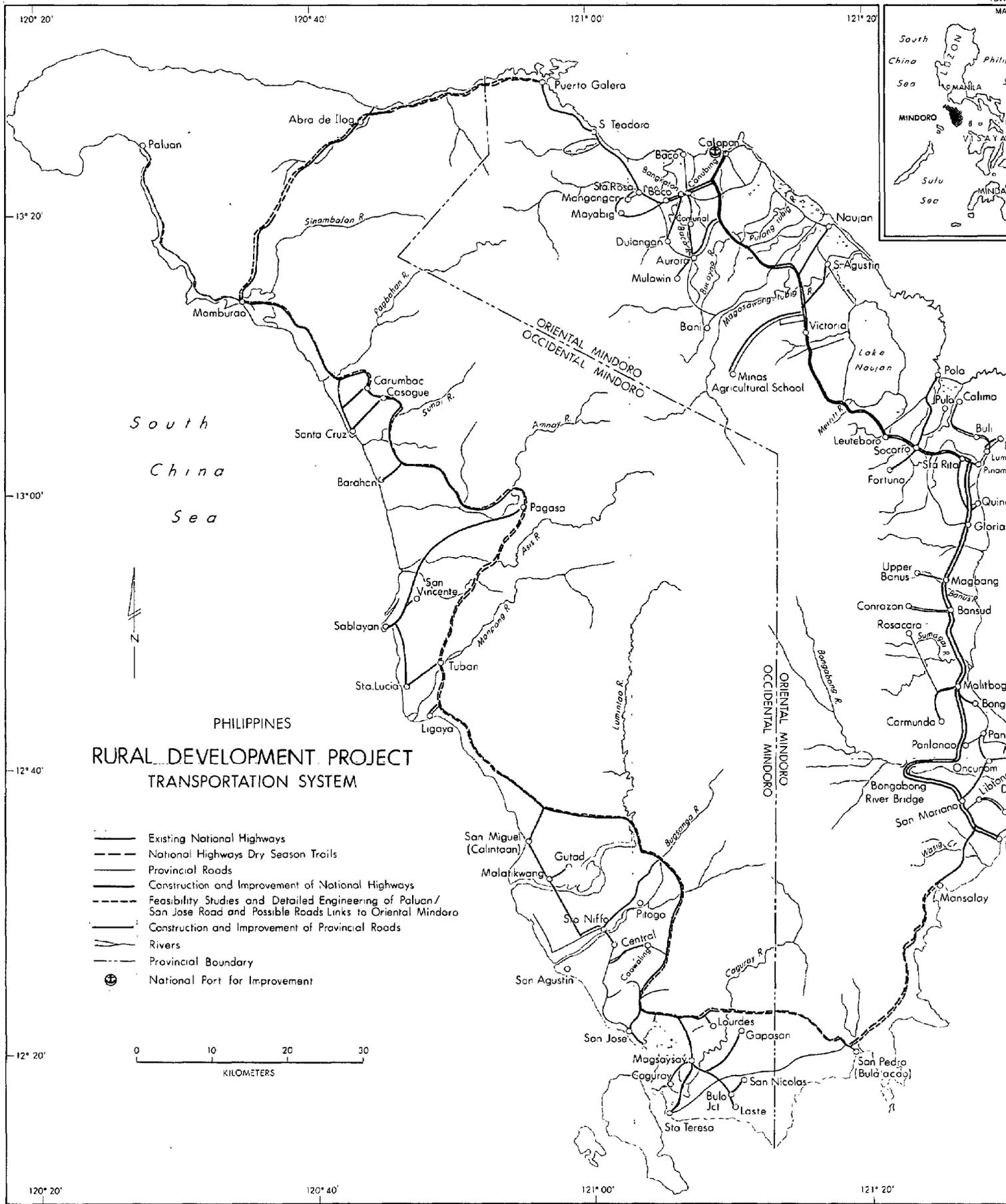
- (a) Equipment and vehicles costing US\$3.1 million would be procured after international competitive bidding in accordance with Bank Group Guidelines. A preference limited to 15 percent of the cif price of imported goods or the custom duty, whichever is the lower, would be extended to local manufactures in the evaluation of bids. Procurement of off-the-shelf items costing less than \$10,000 each would be purchased through normal Government procurement procedures, which are satisfactory; the total for such items would not exceed US\$250,000.
- (b) Civil works for the national irrigation systems total US\$5.2 million. About 60 percent of this would be awarded on the basis of competitive bidding advertised locally and in accordance with local procedures, which are satisfactory. The balance of the work - not exceeding 40 percent - would be carried out by National Irrigation Administration (NIA) by force account or by farmers under NIA supervision. Communal irrigation systems would be constructed by force account.
- (c) Contracts for the civil works on the national highways (US\$8.6 million) together with the provincial roads in Oriental Mindoro and the San Jose district of Occidental Mindoro (US\$4.4 million) would be awarded following international competitive bidding in accordance with Bank Group Guidelines. Provincial roads in Mamburao and Sablayan districts of Occidental Mindoro would be constructed by the Department of Public Highways through force account. The improvements to Calapan port would be carried out by contracts awarded on the basis of competitive bidding advertised locally and in accordance with local procedures which are satisfactory. Civil works for other components of the project (US\$2.3 million) would be small and scattered and would not be suitable for competitive bidding. They would be carried out by force account using mostly manual labor.

Consultants:

Department of Public Highways would engage consultants to carry out feasibility studies and, if warranted, detailed engineering for a national highway in Occidental Mindoro and possible road links with Oriental Mindoro.

1/ All costs are before contingencies.

- Rate of Return: (a) National highway 18%.
- (b) Irrigation, provincial roads and agricultural program 15% - 25%.
- Appraisal Report: No. 633a-PH dated March 14, 1975.



PHILIPPINES
**RURAL DEVELOPMENT PROJECT
 TRANSPORTATION SYSTEM**

- Existing National Highways
- - - National Highways Dry Season Trails
- - - Provincial Roads
- Construction and Improvement of National Highways
- - - Feasibility Studies and Detailed Engineering of Paluan/San Jose Road and Possible Roads Links to Oriental Mindoro
- Construction and Improvement of Provincial Roads
- Rivers
- - - Provincial Boundary
- ⊕ National Port for Improvement



120° 20' 120° 40' 121° 00' 121° 20'

13° 20'

13° 00'

12° 40'

12° 20'

South China Sea

Paluan

Abra de Ilog

Mamburao

Sinambalan R.

Pabaitan R.

Sunay R.

Santa Cruz

Baraheni

Pagasa

San Vicente

Sablayan

Sta. Lucia

Ligaya

San Miguel (Calintaan)

Gutad

Malatkwang

Sta. Niffo

Pitogo

San Agustin

San Jose

Magsaysay

Caguray

Bulu Jct

Sta. Teresa

San Nicolas

San Pedro (Bulacada)

Puerto Galera

S. Teodoro

Calapan

Baco

Sta. Rosa

Mhangang

Mayabig

Dulangan

Aurora

Mulawin

Bani

Magasawang-Tubig R.

Victoria

Minas Agricultural School

Lake Naujan

Naujan

S. Agustin

Pola

Calima

Buli

Lum Pinam

Quini

Gloria

Upper Banus

Magbang

Conrazon

Rosacara

Bansud

Malitbog

Bangi

Panlanao

Pan

Oncuram

Libanon

Mansalay

San Mariano

Bongabang River Bridge

Wang C.

ORIENTAL MINDORO

OCCIDENTAL MINDORO

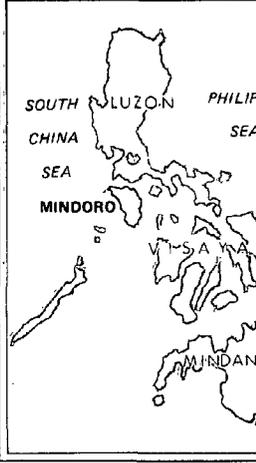
OCCIDENTAL MINDORO

OCCIDENTAL MINDORO

120°30'

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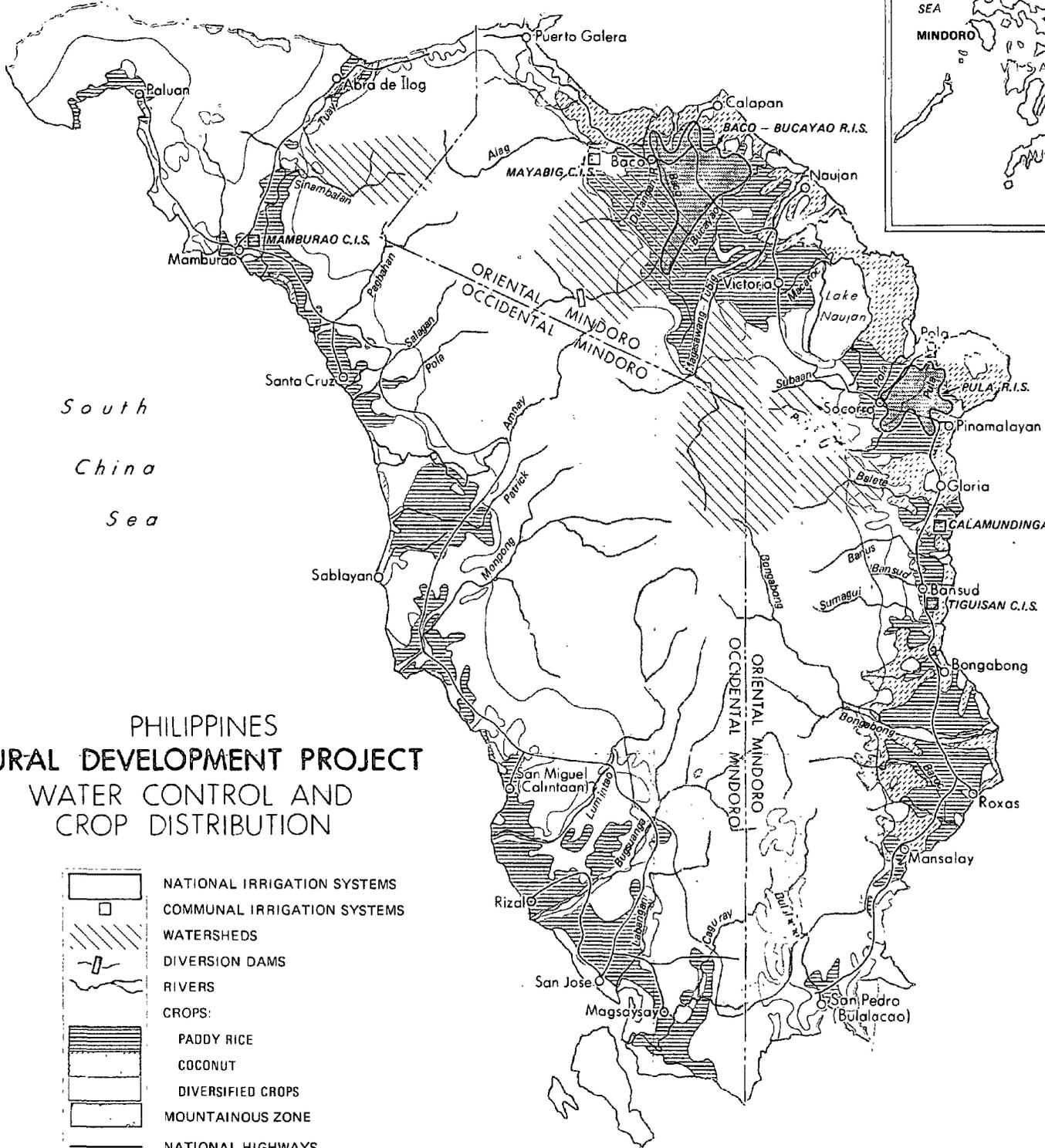
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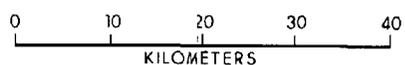
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PHILIPPINES
RURAL DEVELOPMENT PROJECT
WATER CONTROL AND
CROP DISTRIBUTION

-  NATIONAL IRRIGATION SYSTEMS
-  COMMUNAL IRRIGATION SYSTEMS
-  WATERSHEDS
-  DIVERSION DAMS
-  RIVERS
- CROPS:
-  PADDY RICE
-  COCONUT
-  DIVERSIFIED CROPS
-  MOUNTAINOUS ZONE
-  NATIONAL HIGHWAYS
-  PROVINCIAL BOUNDARY



120°30'

121°00'

121°30'