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

March 4, 1976

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CURRENCY EQUIVALENTS

Currency Unit	=	Peso (₱)
US\$1	=	₱ 7.47
₱ 1	=	US\$0.13385
₱ 1 million	=	US\$133.850
₱ 1 billion	=	US\$133.85 million

FISCAL YEAR

July 1 - June 30 1/

1/ To be changed to January 1, to December 31 starting in 1977.

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

1. I submit the following report and recommendation on a loan for the equivalent of US\$25 million, to the Republic of the Philippines to help finance the foreign exchange cost of an education project. The loan would be on standard Third Window terms of 25 years, including seven years of grace, with interest at 4-1/2 percent per annum.

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.

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.

1/ The paragraphs in Part I (with the exception of paragraph 20) and II of this report are the same as those in the Second Livestock Development Project Report.

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 P 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 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 the 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. In view of the Philippines balance of payments and external debt position, and taking into account the country's performance in economic development and its relatively low per capita income, the Philippines is also considered eligible for Third Window loans from the Bank.

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 Second Livestock Project, other projects for fisheries, grain storage, urban development and irrigation may be ready for 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 EDUCATION SECTOR

25. The quantitative achievements of the Philippines education system are impressive: the literacy rate (estimated at 87 percent) is among the highest in Asia and enrollment at the elementary level is universal. The enrollment ratios of 46 percent at the secondary level and 24 percent at higher levels are among the highest in the world. Most elementary school pupils are enrolled in public schools, but about 52 percent of secondary school students and over 90 percent of those in higher education are enrolled in private institutions. However, the quality of education is low because of outdated curricula, a serious lack of textbooks and other teaching aids and the lack of proper data for decision-making and policy formulation.

26. Education Structure and Administration. The Philippines' educational system is comprised of a six-year elementary level, a four-year secondary level, and a four-year tertiary level, followed by further post-graduate programs. Thus, the combined elementary-secondary program provides for ten years of education.

27. The formulation of educational policy lies with the National Board of Education, which is chaired by the Secretary of Education and Culture. Administrative responsibility for public schools and non-chartered colleges, as well as supervision of private schools, rests with the Department of Education and Culture (DEC). The DEC was reorganized in July 1975 with the

establishment of three integrated bureaus organized by level of education (elementary, secondary, and higher education) to replace each of three existing bureaus organized by type of schools (public, vocational, and private). The three parallel organizations have been consolidated into a single organization and each of the Department's twelve regional offices now deals with all levels of education. The consolidation of the field organizations is a distinct improvement over the past arrangements. The establishment of regional bureaus, accompanied by a decentralization of authority as planned, should speed up decision making on local matters.

28. Elementary Education. Enrollment at the elementary level is universal but there is much repetition and attrition. The teaching force is generally well trained. About three-quarters of 230,000 public elementary school teachers are four-year college graduates. Most of the others are graduates from two-year normal colleges or from agricultural, arts, and trades colleges. The pupil/teacher ratio is low (31:1 in public elementary schools). A serious problem is the lack of textbooks. There are few books, and most of those available are used in the urban schools.

29. Secondary Education. About 46 percent of the secondary school age group attend school (almost equally divided between men and women). Pupil/teacher ratios are reasonable (34:1 in private schools and 38:1 in public schools) and teachers are well-qualified (about 95 percent are college graduates in education). However, as in primary schools, instructional materials, particularly textbooks, are in short supply and inadequate in content.

30. Higher Education. The student participation rate at higher levels is 24 percent (with women's participation being higher than men's). Most students (93 percent) attend private institutions; about 40 percent of the students are in Manila but substantial educational opportunities are available in other regions as well. The quality of higher education varies. Increased investments have improved the quality of graduates from selected institutions, but graduates from many institutions are poorly trained. Facilities, equipment and instructional materials are good in a few select institutions, but in general they are scarce or non-existent. In the best institutions, 50 percent of the staff hold post-graduate degrees, but in most other institutions few staff have received post-graduate training.

31. There are eight dominant local languages spoken in the Philippines by about 86 percent of the people, and some 80 dialects spoken by the others. The language closest to a national language is Pilipino (Tagalog) which is understood by about 60 percent of the people in the country. English is the most important non-local language, known by about half the population and is the chief language of government, business and industry, mass media and universities.

32. In June 1974, the Government announced a new bilingual policy which made English the medium of instruction for all science and mathematics courses and Pilipino for all other subjects. Before that date, the local vernacular served as the medium of instruction for the first two grades

and English in the higher grades. The implementation of the new language policy is to be phased over an eight-year period and to be completed by 1982.

33. The main objective of the new language policy is to develop a unifying national language (Pilipino) while maintaining the widely-spoken **non-national language (English) for subjects such as mathematics and science.** The policy seems to be a workable compromise. However, its implementation will pose difficulties for those sections of the population that speak little Pilipino at present. For those people, it will be necessary to accompany introduction of the bilingual education policy with intensive language training in Pilipino.

34. Textbooks. The Textbook Board, within the administrative framework of the DEC, has been responsible for approving textbook manuscripts. Textbooks are often written by private publishers and individual teachers; they are also contracted out by DEC. The Textbook Production Service of the DEC contracts with private firms for the printing of books and with private freight forwarders for book distribution. Payment for books ordered by the central government is made by the DEC and for books ordered locally by the local government. The present policy of the Government is not to charge public school students for books.

35. The process of producing and distributing books has not been satisfactory. The development of a new textbook title takes about six years and the supply of books has been irregular and insufficient. It is estimated that in the public elementary and secondary schools there is an average of only one book for every ten pupils in any one subject. Another 50 million textbooks would be needed throughout the public school system to provide each pupil with one textbook per subject. Moreover, 80 percent of the existing books are at least five years old, in poor condition, and outdated. The books lack continuity in subject matter from grade to grade, are inconsistent in the level of language proficiency demanded of pupils and provide no reinforcement in content between related subject areas. The main reasons for lack of textbooks have been the absence of an effective institution to develop and supply textbooks to schools regularly.

36. Electronic Media. Radio broadcasts are used in elementary and adult education, in-service teacher training and agricultural extension. Despite the variety of educational radio and television activities, they appear to have had only a marginal impact due to their unsystematic use. Given the potential for widespread quality improvement through mass media, particularly in rural areas, the Government plans to undertake a study of the possible role of electronic media and other educational technology in Philippine education.

36. Educational Financing. The total amount of funds (public and private) allocated to education in 1975 is estimated at P 3,000 million (US\$402 million and about 3.2 percent of GNP); two-thirds is provided by the national government. Although national government expenditures devoted to education more than doubled between 1968 and 1974, they decreased as a share

of total national Government expenditures from 32 to 15 percent. Most (85 percent) of the national government expenditure on education is devoted to elementary schools, which are the responsibility of the national government. Public secondary schools are supported by local government finance which varies according to the income of the region. One consequence of this is a substantial variation in the quality of instruction according to the income of the locality. Another characteristic of educational financing is that 90 percent of public operating expenditures on education consists of salaries and other personnel costs. Hardly any provision was made in the past for textbooks and other supplies and a Special Education Fund was therefore created in 1973. Funds available for textbooks and other teaching materials from this source amounted to ₦ 21.5 million (US\$2.9 million) in 1975, but are still far from adequate.

38. Development Priorities and Education Reform. During the 1960s, Government policies emphasized improvements in the training of middle and higher levels of agricultural, industrial and scientific manpower. A national education development strategy for the period 1973 to 1982 was developed by a 1970 Presidential survey of the education sector. In accordance with this strategy priority is being given to the improvement of educational quality, the strengthening of educational administration, the redress of imbalances of educational opportunities between rural and urban areas and greater Government control over higher level schooling. Improved educational quality is to be achieved by updating curricula, integrating academic and vocational studies at the secondary level and producing textbooks based on the updated and revised curricula. The Government is also to investigate ways in which it could use satellite communication and other mass media to improve the quality of education. Educational administration is to be strengthened through the reorganization of the DEC, better planning, and the provision of a regular flow of up-to-date information to managers. The imbalance of educational opportunities between the rural and urban areas is to be redressed through construction of new secondary schools in rural areas. Increased Government control of higher level schooling is to be achieved by introducing a program of certification and by increasing the Government's financial support of higher level schools.

39. Presidential Decree No. 6-A (of 1972) established the machinery to implement the new development strategy. It authorized the appropriation of ₦ 50 million (US\$6.7 million) per annum for a period of 10 years for development projects. It established a Special Education Committee (comprised of the Secretary of Education and Culture, the Secretary of Finance, and the Commissioner of the Budget) to administer the appropriated funds and the Education Development Projects Implementing Task Force (EDPITAF) to implement projects. The Government has succeeded in establishing EDPITAF as a strong agency capable of implementing the Government's education reform projects. It has also begun a program of curriculum development in mathematics, science, and social studies. However, little progress has been made in the provision of more and better textbooks. Some of the manuscripts developed recently are expected to be printed and distributed under the proposed project.

PART IV - THE PROJECT

Background

40. The project was prepared by the Government with the assistance of UNESCO/IBRD Cooperative Program and appraised by the Bank in June/July 1975. Negotiations were held in Washington during January 1976 and the Philippine delegation was led by his Excellency Eduardo Romualdez, Philippine Ambassador to the United States.

41. This would be the third World Bank Group operation for education in the Philippines. The first was a Bank loan (Loan 393-PH) of \$6 million made in 1964 to assist the Government in financing the expansion of the University of the Philippines College of Agriculture at Los Banos. The project was satisfactorily completed in 1972 within the original cost estimates. An IDA credit of \$12.7 million was approved for a second project in 1973 (Credit 349-PH) to help finance the construction of new facilities and equipment for (a) a curriculum development center and four science teaching centers; (b) thirteen agricultural high schools and two agricultural colleges; and (c) ten regional skill training centers and three technical institutes. The execution of this project is progressing satisfactorily and the project is expected to be completed on schedule.

Description of the Project

42. The basic purpose of the proposed project is to develop the institutional capacity for the continuous development and supply of relevant textbook material in the Philippines. This involves the establishment or strengthening of local institutions to develop and distribute textbooks, and the production and distribution of about 27 million textbooks as the first phase of an eight year program to introduce about 98 million new textbooks into public primary and secondary schools by 1984. The major part of the project thus consists of:

- (a) the procurement of furniture and equipment for the expansion of the functions of the Textbook Board;
- (b) the constructing, furnishing and equipping of two new, and the equipping and furnishing of three existing curriculum development centers;
- (c) curriculum development, manuscript writing, testing and revising textbooks (about 75 titles) for five primary and secondary school subjects;
- (d) training of about 250,000 public elementary and secondary school teachers in the use of new textbooks;
- (e) equipping 14 staff development centers and 34 development high schools for testing textbooks and teacher training;

- (f) the purchase of paper for, and printing and binding of about 27 million textbooks and their distribution to public elementary and secondary schools;
- (g) constructing, furnishing and equipping of one national, and 107 provincial and sub-provincial warehouses; and
- (h) evaluation of the textbook program.

The other components of the project consist of the establishment of an education management information system to provide managers with a regular flow of up-to-date information and a pre-investment study on the use of educational mass media, involving particularly the use of radio and TV via satellite-communication.

43. In addition, the project would provide for technical assistance, including a total of 24 man-years of fellowships and 27 man-years of local and expatriate specialist services. Fellowships would be awarded to about 50 educators and administrators mainly for short-term training overseas in fields related to the project, such as book production. The specialist services would be to help the Government to develop its capacity for textbook publishing, to establish the management information system and to undertake the mass media pre-investment study.

Institutional Arrangements

44. Textbooks. The existing project unit in the DEC (EDPITAF), which is in charge of the Second Education project (Credit 349-PH), would also be responsible for overall administration, financial control and liaison with the Bank and, specifically, for the implementation of the physical facilities and technical assistance components of the project.

45. As mentioned earlier, a key objective of the project is strengthening the textbook development process in the Philippines. Therefore, the Government has recently reorganized its textbook program and given responsibility for all stages to the Textbook Board of DEC. The Textbook Board of DEC, which formerly only approved manuscripts of textbooks for use in public schools, would now be responsible for the development, production and distribution of textbooks. To perform its considerably expanded functions, the Textbook Board would be assisted by a full-time professional secretariat which would have about six functional units. The secretariat of the Textbook Board, which would be responsible for the day-to-day operations of the Textbook Board, would be headed by a director and staffed by qualified and experienced professional staff including an editor-in-chief, senior advisors, designers, teacher trainers, specialists in textbook printing and binding, paper procurement and storage and textbook distribution. Revised implementing rules and regulations of the Textbook Board have been amended to take into account its expanded responsibilities, organizational changes and staffing requirements. The Government has also established a schedule of the key staff appointments. The proposed loan will not become effective until qualified and experienced personnel have been appointed as the director of Textbook Board's secretariat, the editor-in-chief and the heads of its production and manufacturing units (Section 6.01 of the Loan Agreement).

46. An advisory council (Basic Education Textbook Development Co-ordinating Council - BETDECCO) consisting of the representatives of various sections of the DEC, University of the Philippines, curriculum development centers and several other relevant organizations, including a representative of the private Publishers/Printers Association, would advise the Secretary of DEC and the Textbook Board on priorities for development of textbooks.

47. The normal textbook production cycle would require one year of planning and writing, one school year for testing and revision, and one year for printing, binding and distribution. Although private publishers would continue to participate, most curriculum development and manuscript writing under the project would be conducted by five designated curriculum development centers under contract to the Textbook Board. The five centers would develop curricula, write manuscripts, test and revise prototype books, and train teachers in the use of books. Testing would be conducted for a full school year in a minimum of about 40 representative schools before full scale production (Section 3.07 of the Loan Agreement). Purchasing paper in bulk, letting contracts for printing and binding of books, monitoring these contracts and managing all aspects of distribution from printers to schools would be the responsibilities of the manufacturing unit of the Textbook Board.

48. The project would establish a national textbook distribution system including a central warehouse in Manila and about 107 regional and sub-regional warehouses. Printers would deliver the textbooks to the central warehouse; local transporters and forwarding agents, under contract to the Textbook Board, would transport them to the provincial and sub-provincial warehouses. Public school principals would be responsible for transport to schools, care and storage of textbooks in the schools and their loan to pupils. The books would be loaned free of charge and their distribution would be on the basis of one book per subject for each two pupils in all public schools at the relevant grade level.

49. Under the project, 250,000 teachers would be trained in the use of textbooks through a network comprised of the project curriculum development centers, regional staff development centers, and development schools. At the national level, the five project curriculum development centers would provide training in their respective areas for the staff of 14 regional staff development centers attached to teacher training institutions. The staff development centers would provide training for the staff of 34 development high schools and primary schools. The development schools would in turn conduct short courses for teachers in their regions. Adequate language instruction for teachers and students would be provided where necessary (Section 3.10 of the Loan Agreement).

50. The Textbook Board would initiate a program to evaluate the textbooks and the teacher training program under the project. The textbook evaluation program would include collection of data on the number of books distributed, an analysis of the results of testing prototypes and a program to test the incremental change in pupils' achievements as a result of provision of textbooks. Evaluation of teacher training component would include data on the number of workshop participants and an analysis of the effectiveness of training in textbook use.

51. Education Management Information System. In support of its reorganization and its intention to strengthen planning and management, the DEC has embarked on a program to introduce a management information system within its Office of Planning Services. The system would provide for centralized computer processing of educational statistics which are necessary to improve policy making, planning and administration. The introduction of the system would entail:

- (a) setting priorities regarding data needs;
- (b) designing and testing forms and procedures for data collection and processing;
- (c) scheduling and phasing implementation;
- (d) computer programming; and
- (e) staff training.

Adequate computer facilities are available.

52. Mass Media Pre-Investment Study. The Government is considering the extensive use of satellite communication for radio and television and other mass media for formal and non-formal education. In order to provide a basis for decision-making and to select an effective strategy for introducing educational technology, the Government proposes to undertake a pre-investment study. The study would be conducted jointly by national and international specialists under the leadership of an Inter-Agency Planning Committee within the DEC. It is to be completed before the end of 1976 when allocations of channels on available satellites are expected to be made.

Cost and Financing of the Project

53. The total cost of the project is estimated at \$51.6 million, including \$25.2 million in foreign exchange (for details, see Annex III). The total cost estimates include a physical contingency equivalent to about 10 percent of base cost and a price contingency of about 34 percent. The proposed loan of \$25 million would finance the foreign exchange component of the project; the balance of project costs would be financed through government budgetary allocations. The annual additional recurrent expenditure generated by this project when it is in full operation in 1980 would be about \$14.5 million (in December 1975 prices) for additional textbooks and \$0.7 million for the operating costs of the Textbook Board and curriculum development centers. Altogether these expenditures are substantial, which would be equivalent to about 4.4 percent of the national government expenditure on education in 1975. In addition to the normal assurance that the Government would make the necessary funds available for the proposed project, the Government has given assurances that it would commit sufficient resources to carry through with the second phase of the textbook program during 1981-1984 (Section 3.01 (b) of the Loan Agreement).

Procurement and Disbursements

54. Contracts would be grouped to the maximum extent possible. Civil works contracts exceeding \$500,000, contracts for supply of paper above \$100,000, and equipment and furniture contracts exceeding \$50,000 would be awarded following international competitive bidding in accordance with the Bank's Guidelines. Contracts below these amounts and those for printing would be awarded on the basis of competitive bidding advertised locally and in accordance with Government procedures which are acceptable. The aggregate amount of contracts so awarded would not exceed \$2 million. Foreign firms would be allowed to participate. Local equipment, furniture and paper manufacturers would be allowed a margin of preference of 15 percent or actual customs duty, whichever is lower. In addition, miscellaneous items, under contracts not exceeding \$10,000 equivalent, up to an aggregate amount of \$250,000, would be purchased locally on the basis of at least three price quotations.

55. Disbursements would be made over a five-year period against:

- (a) 100 percent of the c.i.f. costs of directly imported paper, equipment and furniture;
- (b) 100 percent of the ex-factory price of locally manufactured paper, equipment and furniture;
- (c) 70 percent of the cost of imported but locally procured paper, equipment and furniture;
- (d) 100 percent of foreign or 60 percent of total expenditures for technical assistance;
- (e) 45 percent of total expenditures for printing and distribution of textbooks;
- (f) 30 percent of the expenditures for civil works, including related professional fees; and
- (g) 15 percent of expenditures for textbook development and teacher training.

Retroactive financing of up to \$50,000 for costs incurred on the mass media pre-investment study after February 1, 1976 is proposed.

Justification

56. As indicated earlier, the Philippine education system is strong in terms of numbers of students enrolled, but weak in the quality of instruction provided. Insufficient and outdated textbooks has been a major contributing factor to low educational quality. The project would provide both the institutional development and increased textbook supply necessary for sustained improvement of educational quality.

57. A central objective of the project is to assist the Government in establishing the institutional framework needed for continuous curricula development and textbook production. Under the project, the Textbook Board would be strengthened in authority and expertise to **initiate**, coordinate, execute and supervise the full complement of textbook publishing functions. The presently dispersed activities associated with textbook development (curricula development, manuscript preparation, testing, production, manufacture and distribution) would be integrated under the single management of the Textbook Board. The wider span of authority of the Board would enable it to undertake a systematic program for developing new textbook titles. Testing, revision and teacher training, not done at present, would be introduced as an integral part of textbook development.

58. The strengthened management of the textbook development process should bring about over the next four years: (a) more than a 50 percent reduction in the time required to produce new books; (b) a three fold increase in the output of new textbook titles; (c) a tenfold increase in the production capacity for new books; (d) a 40 percent reduction in the average cost per book; and (e) a substantial increase in the quality of books produced. The increased supply of 27 million books should allow the pupil/book ratio per subject to be reduced from 10:1 to 2:1. Not only would this help raise individual learning achievements, but the distribution of uniform textbooks equitably throughout the country would help equalize educational standards between urban and rural areas. The provision of adequate textbooks together with improved teacher training would be an important step toward improving curricula and classroom practices. They should also reduce repeater and dropout rates.

59. In the short term, large scale publication of textbooks by the Government may have somewhat adverse effect on private publishing industry in the Philippines. However, given limited capacity of the private sector, no feasible alternative to publication by government is available if the current shortage and low quality of textbook is to be remedied. In the long run, publication by the Government and private publishers would complement each other and would be necessary to meet the growing demand for books.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

60. 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. Features of particular interest are referred to in paragraphs 45, 47, 49, 53 and 55 of this report. The proposed loan will not become effective until key staff appointments have been made to the secretariat of the Textbook Board (Section 6.01 of the Loan Agreement).

61. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and with the established criteria for Third Window loans.

PART VI - RECOMMENDATION

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

Robert S. McNamara
President
by: J. Burke Knapp

Attachments
March 4, 1976.

Annex I

Page 1 of 3 pages

COUNTRY DATA - PHILIPPINES

AREA
300,000 km²

POPULATION
39.04 million (mid-1972)

DENSITY

Per km² of arable land

SOCIAL INDICATORS

	Philippines		Reference Countries		
	1960	1970	Thailand	Turkey	Korea
GNP 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 /g	65
Gross reproduction rate /2	..	3.3	3.2	2.6 /d,g	2.5
Population growth rate /1	3.0	3.0 /h	3.1	2.5 /h	2.2 /h
Population growth rate - urban	2 /i,j	4 /i	5 /k	4.5 /l	6 /m
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 /1	1.7	0.9 /b	0.9	0.8	0.8 /b
Economic dependency ratio /1	1.7	1.5	1.1	1.1	1.1
Urban population as percent of total	30 /i	32 /i	25 /k	39 /b,l	41 /m
Family planning: No. of acceptors cumulative (thous.)	..	409	490	1484 /p,q	..
No. of users (% of married women)	..	8	10	8.2 /e	..
EMPLOYMENT					
Total labor force (thousands)	9,100	12,300	16,500	11,500 /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 /e,t,v	15 /o,t
Percent of national income received by highest 20%	56 /s,t	54 /o,t	46 /t,u	60 /e,t,v	37 /o,t
Percent of national income received by lowest 20%	5 /s,t	4 /o,t	7 /t,u	3 /e,t,v	10 /o,t
Percent of national income received by lowest 40%	13 /s,t	12 /o,t	17 /t,u	10 /e,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 /w	7,970	2,220 /x	2,210 /y
Population per nursing person	..	5,390 /w	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	52	78	65 /ab
Of which, animal and pulse	19 /ad	22 /ab	17 /ac	22 /ae	19 /ab
Death rate 1-4 years /1	9 /aa	7 /ab	..	15 /af	..
EDUCATION					
Adjusted /8 primary school enrollment ratio	91	112 /ag,ah	80 /e	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 /c
Adult literacy rate %	..	72 /r	70 /o,r	55	91 /ak,al
HOUSING					
Average No. of persons per room (urban)	..	..	..	1.9	2.7
Percent of occupied units without piped water	80 /an	66 /am	..	64 /an	80 /ap
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 /c
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. kq 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.

/a 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;

/c 1965-70 UN estimate; /d Derived from sample survey estimates (240,000 persons) excluding 17 Eastern provinces;

/e 1968; /f 1946-49; /g 1965-67; /h 1960-72; /i 1956-60; /j For definition of urban see UN Demographic Yearbook 1971, p. 156; /k Over 10,000 population; /l Administrative centers of provinces and districts ("Wilayat" and "Kaza" centers); /m Seoul city and municipalities of 5,000 or more inhabitants; /n Estimate; /o 1971;

/p 1964-June 1974; /q 86 percent being IUDs; /r 15 years and over; /s 1961; /t Households; /u Urban only;

/v Disposable income; /w Personnel in government services only; /x Including assistant nurses and midwives;

/y Number on the register, not all working in the country; /z Imports only; /aa 1962; /ab 1969; /ac Including rural hospitals; /ad 1960-62; /ae 1964-66; /af 1965-67; /ag Including average students; /ah 1967;

/ai Public education only; /aj Data on vocational education refer to public schools and include technical education at post-secondary level; /ak 10 years and over; /al Definition not available; /am Water piped inside or outside;

/an Water piped inside; /ao 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 1974ANNUAL 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	-3.5	9.4	23.4
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	FY71-73
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	147	184	653	

MERCHANDISE EXPORTS (AVERAGE 1972-74)

	US \$ Mln	%
Cocunut 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		Outstanding & Disbursed	IBRD	IDA
	1965-69	1970-71	1965-69	1970-71			
US\$ 1.00 = Ps.	3.92	6.43	3.92	6.43	237.0	453.4	7.3
Ps. 1.00 = US\$	0.26	0.16	0.26	0.16	690.4	690.4	22.2
	<u>April 1972-July 1975</u>		<u>Since July 1975</u>				
US\$ 1.00 = Ps.		6.78		US\$ 1.00 = Ps. 7.5			
Ps. 1.00 = US\$		0.15		Ps. 1.00 = US\$ 0.133			

- 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/ 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.

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)		
				Amount less Cancellations		
			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	
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	
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)			<u>78.6</u>	<u>-</u>		
Total now outstanding			<u>690.4</u>	<u>22.2</u>		
Amount sold			13.3			
of which has been repaid (3rd Parties)			<u>12.1</u>	<u>-</u>		
Total now held by Bank and IDA (prior to exchange rate adjustments)			<u>689.2</u>	<u>22.2</u>		
<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 relented 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 - THIRD EDUCATION PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Republic of the Philippines

Amount: US\$25 million equivalent

Terms: Repayment in 25 years, including seven years of grace, with interest at 4-1/2 percent.

Project Description: The project consists of:

- (a) procurement of furniture and equipment for the Textbook Board.
- (b) constructing, furnishing and equipping two new and, furnishing, and equipping three existing curriculum development centers;
- (c) curriculum development, writing, testing and revising textbooks (about 71 titles) for five primary and five secondary school subjects;
- (d) training of about 250,000 public elementary and secondary teachers in the use of the new textbooks;
- (e) equipping 14 staff development centers and 34 development high schools for testing textbooks and teacher training;
- (f) purchase of paper for, and printing and binding of 27 million textbooks and their distribution to public elementary and secondary schools;
- (g) constructing, furnishing and equipping one national and 107 provincial and sub-provincial warehouses; and
- (h) evaluation of the textbook program.

The project would also provide for (i) the introduction of a management information system in the Department of Education and Culture, (ii) a mass media pre-investment study, and (iii) technical assistance in the form of training, fellowships and specialist services.

<u>Estimated Cost</u>	-----\$ Million-----		
	<u>Local</u>	<u>Foreign</u>	<u>Local</u>
1. Civil Works	2.3	1.0	3.3
2. Furniture	0.2	0.1	0.3
3. Equipment	0.4	3.4	3.8
4. Professional Services and Technical Assistance	0.6	0.8	1.4
5. Teacher Training	3.0	0.3	3.3
6. Textbook Development	6.7	1.0	7.7
7. Paper	0.3	6.3	6.6
8. Printing	3.9	3.2	7.1
9. Delivery	<u>1.4</u>	<u>1.0</u>	<u>2.4</u>
Total Base Cost	18.8	17.1	35.9

10. Contingencies

Physical	1.9	1.7	3.6
Price	<u>5.7</u>	<u>6.4</u>	<u>12.1</u>
	26.4	25.2	51.6

Financing:

<u>Government</u>	<u>IBRD</u>	<u>Total</u>
-----\$ Million-----		
26.6	25.0	51.6

Estimated Disbursement:

<u>Calendar</u>	-----\$ Million-----	
	<u>Annual</u>	<u>Cumulative</u>
1976	1.0	1.0
1977	4.7	5.7
1978	7.2	12.9
1979	6.1	19.0
1980	6.0	25.0

Procurement Arrangements:

Contracts would be grouped to the maximum extent possible. Civil works contracts exceeding US\$500,000, contracts for supply of paper above \$100,000, and equipment and furniture contracts exceeding \$50,000 would be awarded following international competitive bidding in accordance with the Bank's Guidelines. Contracts below these amounts and those for printing would be awarded on the basis of competitive bidding advertised locally and in

accordance with Government procedures which are acceptable. The aggregate amount of contracts so awarded would not exceed \$2 million. Foreign firms would be allowed to participate. Local equipment, furniture and paper manufacturers would be allowed a margin of preference of 15 percent or actual customs duty, whichever is lower. In addition miscellaneous items, under contracts not exceeding \$10,000 equivalent, up to an aggregate amount of \$250,000, would be purchased locally on the basis of at least three price quotations.

Consultants:

The project includes about 27 man years of local and expatriate specialist services for textbook production and distribution, the management information system and the mass media pre-investment study.

Appraisal Report:

Report No. 945a-PH
Dated, February 27, 1976
East Asia and Pacific Projects Department